CHAPTER I.

THE REVENUE SYSTEM OF TENNESSEE

At the present time the most important tax sources of revenue for the State of Tennessee are: the gasoline tax (5 cents per gallon), motor vehicle registration fees, the property tax, the excise tax on insurance companies (2½% on gross premiums), the sales or excise tax on tobacco (10% on sales price), the privilege tax on merchants and occupations, the excise tax on corporations (3% of net income), fees for inspection of coal oil and gasoline, and the inheritance tax. In making its reports the Department of Finance and Taxation sometimes combines two or more receipts so that it is not always possible to determine just what the receipts were from a given source. In so far as they can be segregated, the following table gives the receipts from the various sources for the fiscal year ending June 30, 1928.

Gasoline tax	$4,733,073.98
Motor Vehicle fees	4,039,244.64
Property tax (estimated)	3,400,000.00
Insurance companies and agents	1,433,064.43
Privilege taxes	1,188,269.78
Tobacco tax	1,283,155.02
Corporate excise tax	862,005.83
Coal oil inspections[1]	769,927.76
Inheritance tax	424,750.09

The property tax is collected by two or three different methods, and is sometimes combined with other figures so that it is impossible to state exactly how much it amounted to in 1928. The amount, however, was approximately $3,400,000.

Prior to 1923 the most important source of state revenue was the property tax, more than 40% of all state receipts (exclusive of borrowing) coming from this source in the fiscal year ending June 30, 1922. In imposing a property tax it is customary to exempt certain forms of property, or property belonging to certain individuals or organizations. The most important of these exemptions in Tennessee are as follows:

(1) Public property: that is, property owned by the state, county, or other governmental units.
(2) Property belonging to religious, charitable, scientific, or educational institutions.
(3) Growing crops.
(4) Direct produce of the soil in the hands of the producer or his immediate vendee, and manufactured articles of the state in the hands of the manufacturer.
(5) Personal property to the value of $1,000 in the hands of each resident tax payer.

(1) Receipts from coal oil inspections are classified as fees by the State Department of Finance and Taxation. In this study they are listed as taxes because they yield large sums in excess of the cost of collection.

With the exception of the above classes, practically all property in the state, including real estate, tangible personal property, and intangible personal property, is supposed to be taxed uniformly at its "actual cash value". In assessing and collecting the tax, however, several different methods are provided:

I. Public Utilities.

First, the property of public utility companies, including steam railroads and terminal companies, private car and sleeping car companies, express companies, telephone and telegraph, electric, gas, and water companies, and electric railway and power companies, is assessed by the Railroad and Public Utilities Commission according to special rules prescribed by law. Against such assessed values are applied the rates which apply to all other forms of property. The state taxes are paid by the utilities directly to the state comptroller, while county and city taxes are paid to local officials just as are county and city taxes on other property.

II. Merchants.

Because of the difficulty of assessing the property of merchants, a special procedure is provided. Persons, firms, companies or corporations engaged in merchandising are required to file with the Clerk of the County Court a statement under oath, showing the amount of capital invested in business. Under no circumstances shall the assessment "be less than the value of the average amount of stock on hand during the preceding year, to be ascertained by adding together the value of the highest amount of stock on hand during said year with the value of the lowest amount of stock on hand at any other time during said year, and dividing the same by two". To this is added the value of "pictures, safes, dishes, and office furniture," and upon the total value the merchant is taxed at the same rate as other property is taxed for state, county and municipal purposes, the tax being paid to the Clerk of the County Court, who turns over to the comptroller the share belonging to the state.

III. Corporations.

Until 1921 county assessors were required to assess the property of all corporations, except the public utility corporations mentioned above, in much the same way that property of individuals was assessed. It was thought that this method resulted in the escape from taxation of a great amount of intangible property held by corporations; therefore it was provided that such corporations file reports with the Department of Finance and Taxation and upon the basis of such reports the Superintendent of the Division of Taxation should determine the assessment. When the Superintendent has made the assessment, he furnishes county assessors with an abstract of the same; and the assessors include the assessments on the local tax rolls, to be taxed at the same rates for state, county and municipal purposes as other property. Taxes are paid

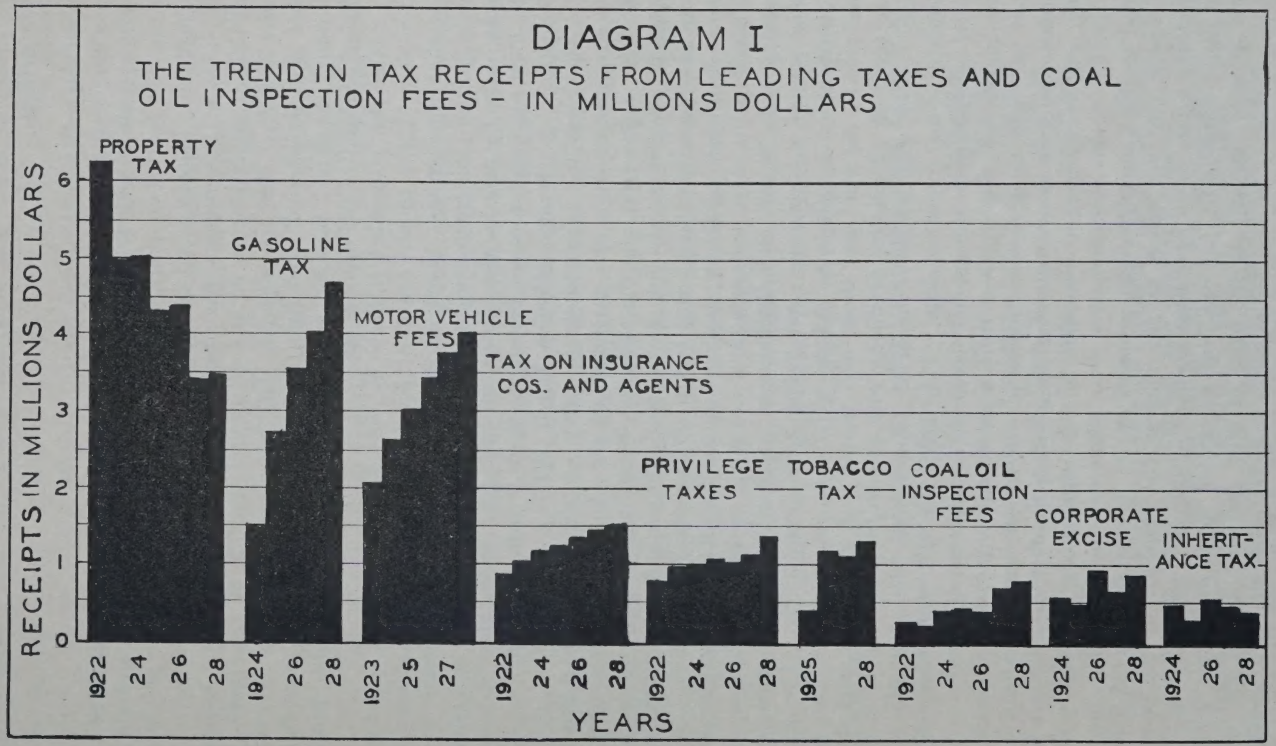


DIAGRAM I
THE TREND IN TAX RECEIPTS FROM LEADING TAXES AND COAL OIL INSPECTION FEES - IN MILLIONS DOLLARS
RECEIPTS IN MILLIONS DOLLARS
0
1
2
3
4
5
6
PROPERTY TAX
GASOLINE TAX
MOTOR VEHICLE FEES
TAX ON INSURANCE COS. AND AGENTS
PRIVILEGE TAXES
TOBACCO TAX
COAL OIL INSPECTION FEES
CORPORATE EXCISE
INHERITANCE TAX
1922 24 26 28
1924 26 28
1923 25 27
1922 24 26 28
1922 24 26 28
1925 28
1922 24 26 28
1924 26 28
1924 26 28
YEARS

by the corporation to the county trustees who retain the share due to the county or other local units, and forward the state's share to the state officials.

IV. Other Property.

Other property, including real estate and personalty, is assessed by county assessors, who are elected for a term of four years. All property is assessed every two years, in the odd numbered years, but provision is made for increasing or decreasing assessments in the even years if the value of the property has changed due to certain causes, such as addition of improvements, or loss of property because of fire, flood, or other casualty. The law specifies that "all personal property of every kind shall be assessed", and lists ten general classes, such as household furniture, livestock, farming machinery and tools, notes, bills, bonds, money on hand or on deposit, etc.

After the assessment is made by the county assessor, it is subject to review by the county board of equalization, and later by the state board of equalization. When equalization is completed, the total taxes to be paid are determined and the full amount, state, county and municipal, must be paid to the county trustees, who retain the share due the local units and forward the state's share to state officials.

Gasoline Tax (became effective March, 1923)

The need for more funds to carry on the expanding functions of government led to the enactment of the two new tax measures in 1923, the gasoline tax and the excise or income tax on corporations. As originally enacted the gasoline tax was two cents per gallon, but in 1925 the rate was increased to three cents, and in 1929 to 5 cents per gallon. It is imposed on each gallon of gasoline and distillate sold or otherwise distributed in the state, and collections are made monthly on the basis of reports from dealers and distributors. As used in the law, these are very similar to "retailers" and "wholesalers", respectively. The term "distributors" is defined to include refiners or manufacturers who sell gasoline in the state and those who import it from outside, and they are taxed on all gasoline produced, sold or otherwise distributed in the state except that which is imported from outside the state and distributed in the original package. This means that the "dealer" or retailer is taxed only on the amount which he imports and distributes, or on the amount which he receives from a distributor in the original package, and later sells or otherwise distributes. Both dealer and distributor are required to keep records showing the amounts handled, such records being open at all times to inspection by the Commissioner of Finance and Taxation or his representatives who administer the law. The tax is paid to the Comptroller and proceeds are to be distributed as follows: (1) one cent per gallon to pay interest and principal of the county highway bonds which have been assumed by the state and which amount to about $30,000,000; (2) one cent per gallon to be distributed among the counties, one-half on the basis of area, and one-half on the basis of population, to be used for highway purposes under the joint adminis-

tration of the state highway department and accredited county highway organizations; (3) after January 1, 1932, 1/10 of one cent per gallon to be devoted to the payment of interest and principal of the $1,500,000 Smoky Mountain Park Bonds; (4) the remainder "to be used solely in the construction and maintenance of the highway system of the state." The cost of administering the law is limited to 1% of the proceeds of the tax.

The revenues from this source show a consistent growth, the average annual rate of increase in the last two years being about 15%.

Fiscal year ending June 30, 1924	$1,543,466.91
Fiscal year ending June 30, 1925	2,568,623.95
Fiscal year ending June 30, 1926	3,518,858.08
Fiscal year ending June 30, 1927	4,054,261.56
Fiscal year ending June 30, 1928	4,733,073.98

Corporation Excise

The legislature of 1923 also passed a law requiring all corporations, domestic and foreign, doing business in Tennessee, to pay an excise tax of 3% of the net earning of the corporation on intrastate business done within the State of Tennessee. The law is administered by the Excise Division of the Department of Finance and Taxation, which requires corporations subject to the law to file reports with it on or before May 1 showing the entire net income for the preceding year as reported to the United States Collector of Internal Revenue. For those corporations engaged in interstate business a formula has been devised whereby a portion of the entire net income is apportioned to Tennessee in accordance with the amount of business done solely within the State. Against the amount so determined the rate of 3% is applied, but from this total the corporation is allowed to deduct certain privilege taxes paid the state. As stated above, the actual administration of the tax is in the hands of the Excise Division, but payment is made directly to the State Comptroller.

Receipts from this tax are subject to considerable fluctuation, as shown by the following figures:

Fiscal year ending June 30, 1924	$674,648.75
Fiscal year ending June 30, 1925	532,642.81
Fiscal year ending June 30, 1926	915,028.99
Fiscal year ending June 30, 1927	682,592.07
Fiscal year ending June 30, 1928	862,005.83

Tobacco Tax

Another new source of revenue appearing after 1923 is the excise or sales tax on tobacco. This tax was originally enacted in 1925 and limited to two years duration, but in 1927 it was re-enacted and made permanent. Until 1929 a flat rate of 10% of the intended sales price was applied to cigars, cigarettes, manufactured tobacco or snuff, but in 1929 the rate on cigarettes whose intended sales price is one cent each or

less was established at one-tenth of one cent for each cigarette. The rate on higher priced cigarettes and other forms of tobacco was left unchanged. Collection of the tax is made by purchase and fixation of stamps to the package containing the tobacco, the stamps being sold by the Department of Finance and Taxation which is entrusted with administration of the law, with costs limited to 2% of collections.

The proceeds are devoted solely to education in the following proportions under the 1929 law:

1. $800,000 to an equalization fund to provide an eight-month term in rural elementary schools.
2. $200,000 to high schools, to supplement the regular high school fund.
3. $82,500 to amortize a building fund for building and repairing rural school houses.
4. $225,000 to amortize a building fund of $2,500,000 for the state university.
5. The remainder to the general State School Fund.

Collections under this law have been as follows:

Fiscal year ending June 30, 1925	$ 407,403.12[2]
Fiscal year ending June 30, 1926	1,110,268.30
Fiscal year ending June 30, 1927	1,041,065.82
Fiscal year ending June 30, 1928	1,283,155.02

Insurance Companies And Agents

Foreign insurance companies are taxed at the rate of 2½% on gross premiums paid by or for policy holders residing in Tennessee, or on property in Tennessee. Agents are required to pay a tax ranging from $10 to $20 each, depending on the population of the county in which they solicit business. Neither tax applies to domestic companies.

Collections under this heading are as follows:

Fiscal year ending June 30, 1922	$ 897,488.54
Fiscal year ending June 30, 1923	1,017,748.59
Fiscal year ending June 30, 1924	1,142,764.49
Fiscal year ending June 30, 1925	1,248,658.27
Fiscal year ending June 30, 1926	1,305,614.57
Fiscal year ending June 30, 1927	1,393,701.13
Fiscal year ending June 30, 1928	1,433,064.43

Coal Oil Inspections[3]

All gasoline and all petroleum products must be inspected by state inspectors before being offered for sale in the state, in order that those fluids fit only for use for power purposes should be distinguished by label from those suitable for illuminating purposes. For such inspection a charge of 20 cents per barrel of 50 gallons or less is made. The fees

(2) Became effective January 1925. Receipts began April 1925.
(3) See footnote, p. 1.

are collected directly by the inspectors and turned over quarterly to the comptroller. Inspectors are appointed by the Governor for a period of two years, and their salaries are paid directly from the fees collected, the excess being turned into the general revenues of the state. The amounts here stated are the gross amounts before payment of salaries.

Fiscal year ending June 30, 1922	$331,839.42
Fiscal year ending June 30, 1923	300,761.66
Fiscal year ending June 30, 1924	469,577.90
Fiscal year ending June 30, 1925	489,065.96
Fiscal year ending June 30, 1926	479,711.29
Fiscal year ending June 30, 1927	705,441.91
Fiscal year ending June 30, 1928	769,927.76

MOTOR VEHICLE FEES—AUTOMOBILE REGISTRATION

Each owner of an automobile, motorcycle, or truck, before operating such vehicle upon streets or public highways, is required to register the same with the Department of Finance and Taxation and pay certain fees. Actual registration is made through the county court clerk, who issues, on the filing of certain information regarding ownership, make and rated horsepower, and the payment of the required fees, a certificate of registration and the license tags to be attached to the vehicle. The fees are 30 cents per rated horsepower for automobiles and motorcycles, and for trucks 30 cents per rated horsepower, plus $3.00 additional for each ton carrying capacity.

The law provides that 10% of the proceeds of the tax or fee may be turned over to state treasury to be drawn on to cover the costs of the license tags, issuing the certificates and other costs incurred by the state in administering the law. The remaining 90% must be expended for the maintenance of state highways in the county from which it was collected, under the direction and supervision of the state highway department in co-operation with road officials of the county.

Receipts from this source also show a continuous growth, as indicated in the following table:

		Rate of Increase
Fiscal year ending June 30, 1923	$2,001,167.00	
Fiscal year ending June 30, 1924	2,594,111.95	29.6%
Fiscal year ending June 30, 1925	3,014,138.78	16.2%
Fiscal year ending June 30, 1926	3,421,969.07	13.5%
Fiscal year ending June 30, 1927	3,742,942.24	9.3%
Fiscal year ending June 30, 1928	4,039,244.64	7.9%

PRIVILEGE TAXES

The Constitution adopted in 1870 provides that "the legislature shall have power to tax merchants, peddlers and privileges, in such manner as they may from time to time direct". (Article II, Sec. 28). Full use has been made of this authority, and the list of vocations, occupations and businesses that are declared to be a privilege and therefore subject

to tax has grown steadily as new revenue needs arose. The Comptroller's Report for the biennium 1924-1926 lists privilege taxes from some 85 or more different sources, and new subjects were added by the Revenue Bill of 1927 so that the present total actually enumerated is about 150. The most usual method is that of imposing rates graduated according to the population of the city or county in which the business is located, antique shops, for example, being required to pay $20.00 if located in a city, town, or taxing district having a population of less than 50,000, $35 if the population is between 50,000 and 100,000; and $50.00 if it exceeds 100,000. Sometimes other bases are used, busses being taxed at rates graduated according to carrying capacity, construction companies according to the aggregate annual contract price—(that is, the total amount of business done), hotels according to prices charged per room, manufacturers of patent medicines according to gross aggregate sales, movie theaters according to seating capacity, cotton seed mills and cotton compresses according to output per year, etc.

These privileges are assessed by local assessors and lists showing such assessments are filed with the county court clerk who collects the tax and remits it to the state comptroller. Total collections, including the merchants' ad valorem tax, are as follows:

Fiscal year ending June 30, 1922	$ 823,900.70
Fiscal year ending June 30, 1923	959,500.40
Fiscal year ending June 30, 1924	990,950.50
Fiscal year ending June 30, 1925	1,038,139.34
Fiscal year ending June 30, 1926	1,033,412.92
Fiscal year ending June 30, 1927	1,069,408.94
Fiscal year ending June 30, 1928	1,188,269.78

INHERITANCE TAX

A tax is imposed on the transfer of property by will or by intestate law, with certain exemptions for property passing to municipalities, churches, schools, hospitals, etc. Direct heirs (husband, wife, children, or parents of the deceased) are exempt on property to the amount of $10,000, and all transfers of property valued at less than $1,000 are exempt. The rates on property transferred to direct heirs range from 1% on values less than $25,000 to 5% on all over $500,000; on transfers to collateral heirs the rates range from 5% on values less than $50,000 to 10% on all over $250,000. The tax is administered and collected by county court clerks under considerable supervision by the Department of Finance and Taxation.

As might be expected, collections show rather wide fluctuations, for the transfer of one large estate in a given year may distort total collections.

Fiscal year ending June 30, 1922	
Fiscal year ending June 30, 1923	
Fiscal year ending June 30, 1924	$510,203.31
Fiscal year ending June 30, 1925	304,932.46

Fiscal year ending June 30, 1926---------- 623,862.71
Fiscal year ending June 30, 1927---------- 515,351.99
Fiscal year ending June 30, 1928---------- 424,750.09

Legislation in 1929

In addition to an increase in the gasoline tax from three to five cents per gallon and certain changes in the rates on tobacco, the legislature in 1929 enacted several new tax laws. The most important of these, as far as future revenue possibilities are concerned, is the Hall income tax act which imposes a tax of 5% on the income from certain stocks and bonds, with an exemption of $1,000 of principal. Since it is a new levy, there are many unsettled legal questions involved so that no reliable estimate of its yield can be given.

Another new levy is a tax of 5 cents per pound on malt. When first discussed, it was estimated by state officials that this law would yield about $300,000 annually. From April, when it went into effect, until September 1929, collections have averaged $15,000 per month.

The third piece of new legislation was a tax of 5 cents per pound on carbonic gas used in sodas. Originally estimated to yield $200,000 annually, this tax showed average monthly collections during June, July and August, 1929, of $5,000.

Non-Tax Receipts

In addition to these revenues from taxes the state receives large sums annually from non-tax sources. In recent years the most important of these were: (1) grants or subventions from the federal government for highway construction, vocational education, agricultural experiment work, national guard, health, etc; (2) contributions from counties for construction of state highways through the counties; and (3) receipts from penal and charitable institutions from the sale of materials or compensation for services. Other smaller amounts are derived from interest on state deposits and from fees for services performed by the state.

Financial statements issued by the state Department of Finance and Taxation usually do not segregate federal aid from fees or other receipts of state departments. However, the publication of the Census Bureau, "Financial Statistics of States", makes a segregation and from it we find that receipts have been as follows:

Table I

Year	Subventions and Grants from the federal government
1922	$2,675,685
1923	2,503,731
1924	2,222,083
1925	3,574,433
1926	2,891,344

Of this amount the largest share is for highway purposes. For several years this item has averaged about $1,600,000, or more than 60% of the total receipts from federal aid.

Another source of non-tax receipts is county aid for highways. For several years improved roads were built under a co-operative arrangement between the state and counties whereby counties agreed to furnish a definite share of the costs. To raise these funds counties were obliged either to raise tax rates on property or to borrow, and the latter method was most frequently used. Finally, on January 1, 1929, the state assumed $31,000,000 of county bonds that had been issued for this purpose, agreeing to pay interest and principal from funds collected under the gasoline tax. As the situation now stands, the state is in practically the same position as if the roads had been built originally from state funds secured from the sale of state bonds, and the figures below showing receipts from county aid might well be considered as receipts from borrowing. With the change in policy of financing highways this receipt will practically disappear following the end of the fiscal year 1929.

TABLE II[1]

Year	Receipts from County aid for Highway purposes
1925[2]	2,482,092.36
1926	2,849,466.43
1927	3,273,690.60
1928	7,099,027.08

(1) From Biennial Report of the Commissioner—Department of Highways and Public Works, 1926 and 1928. Figures not available for years prior to 1925.
(2) Figures for seven months only, Dec. 1, 1924, to June 30, 1925.

A third source of non-tax revenue is charitable and penal institutions. Able bodied prisoners sentenced to the Main Prison and to Brushy Mountain are used directly by the state in manufacturing and in mining coal, or indirectly by being leased out under a contract system. Together these uses yield between $700,000 and $800,000 per year. Receipts from this source may be reduced within the next few years because of legislation enacted by Congress and signed by the President on January 19, 1929, which grants states the right to regulate the sale and use of prison made goods within their own borders. To the extent that surrounding states enact regulatory legislation, the market for products of Tennessee prisons will be restricted. The federal law, however, does not become effective until 1934.

Other penal and charitable institutions listed under this heading include the three state hospitals—Central, Western, and Eastern—,Tennessee School for the Deaf and Dumb, Tennessee School for the Blind, Tennessee Industrial School, State Training and Agricultural School for Boys, Tennessee Commission for the Blind, Tennessee Vocational School for Girls, and Confederate Soldiers' Home. Receipts from these institutions average from $500,000 to $600,000 per year, and represent funds

received on account of pay patients, sale of farm products, and sale of manufactured products.

TABLE III

Year	Receipts from Penal and Charitable Institutions
1922	$ 960,996.42
1923	1,426,638.99
1924	1,152,623.89
1925	1,134,579.98
1926	1,332,727.02
1927	1,302,690.61
1928	1,497,694.74

A number of services performed by government are supported not from general revenues but from direct contributions from those who use the services. These contributions are usually referred to as fees and are classified separately from taxes because the service is primarily for individual rather than general benefit, and because the user is often free to refuse the service and thus avoid payment, whereas payment of taxes is compulsory. Fees are not completely segregated in official state reports but the total non-tax receipts of various departments or officials are given. In some cases this represents a duplication of the figures for federal aid already given. The department of agriculture, for example, reports receipts of $164,492.49 in 1928 which included federal aid for forestry preservation and protection as well as revenue from sale of feed, seed, fertilizer, stamps and tags. In 1928 the most important of these minor non-tax revenues, including interest on state deposits, were as follows:

TABLE IV

Department of Education	$245,604.08
Interest on State Deposits	167,841.22
Department of Agriculture	164,492.49
Department of Public Health	152,174.49
Fees, Game and Fish Fund	94,218.15
Fees, Fire Marshal	56,895.72
Fees, Banking Division	54,500.00
Fees, Public Utilities Commission	37,583.88
Fees, Mine Inspection	6,930.00

The relationship between receipts from tax and non-tax sources is shown in Table V. In addition to funds from counties, from the federal government, interest on state deposits, fees of state officials, and from public institutions, the non-tax receipts include receipts from borrowed funds. It should be noted that receipts from taxes have remained almost stationary for the last three years, the growth in gross receipts being accounted for by borrowing, either directly or through the device of county aid.

TABLE V

Fiscal Year	Gross Receipts All Sources	Federal and other non-tax funds	Actual Receipts from Tax Sources
1924	$17,554,400.60	$ 6,907,495.70	$10,647,944.90
1925	20,705,266.37	6,250,204.03	14,455,062.34
1926	24,992,778.96	7,611,544.39	17,381,234.57
1927	27,191,448.24	10,020,645.06	17,170,803.18
1928	39,644,158.35	21,688,228.38	17,955,929.97

CHAPTER II

THE GROWTH AND DISTRIBUTION OF EXPENDITURES

The revenue needs of any government are determined by the scope of government expenditures. Expenditures in turn depend upon the amount of services demanded by the people. If a community is satisfied to leave many activities to individual initiative there will be little need for public funds and a simple revenue system will be sufficient. As the advantages of co-operative expenditures are realized and as more and more activities are turned over to the government, larger revenues are needed and greater care must be exercised to be sure that everyone bears an equitable share of the cost. A state revenue system, there-

TABLE VI. TOTAL ANNUAL EXPENDITURES OF TENNESSEE, 1911 TO 1928 INCLUSIVE

Fiscal year	Total Expenditures[3]	Fiscal year	Total Expenditures[3]
1911	$4,148,888.96[1]	1920	$ 9,215,987.03[2]
1912	4,128,361.51	1921	11,701,779.06
1913	4,550,634.17	1922	13,939,762.09
1914	5,249,580.41	1923	15,653,038.85
1915	5,289,937.93	1924	15,616,757.27
1916	5,455,721.11	1925	22,058,934.08
1917	7,362,115.64	1926	23,969,818.77[4]
1918	7,728,123.76	1927	26,185,582.12[4]
1919	Omitted because of change in fiscal year.	1928	35,126,450.82[4]

(1) From 1911 to 1918, inclusive, the fiscal year is from Dec. 20 to Dec. 19.

(2) From 1920 to the present, the fiscal year is from July 1 to June 30.

(3) From 1911 to 1923, inclusive, the figures for expenditures are taken from Biennial Report of the Comptroller of the Treasury, and represent "warrants issued." Following 1923 they are taken from the various "condensed financial statements" issued by the Department of Finance and Taxation.

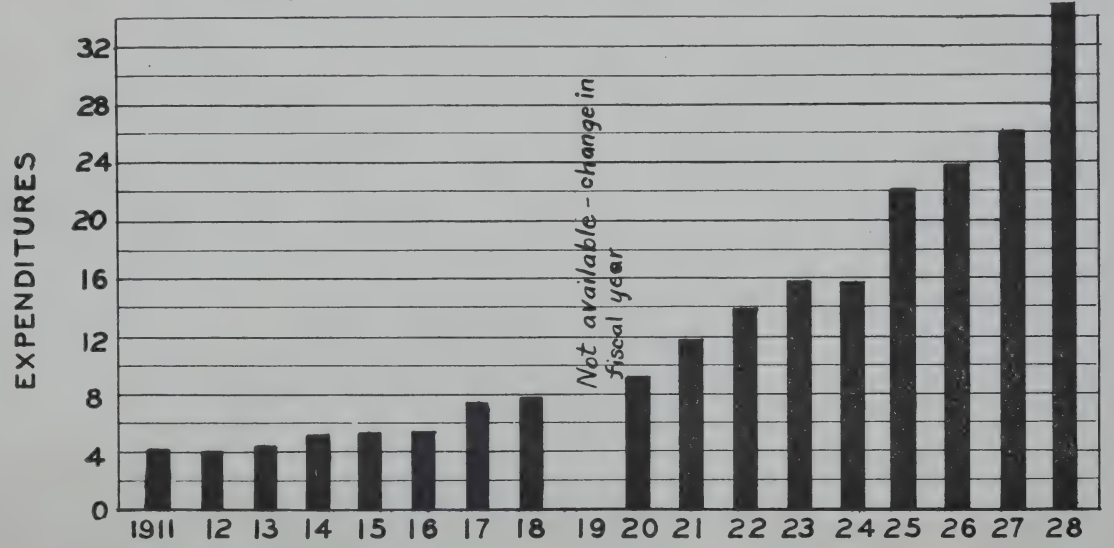
(4) Figures for 1926, 1927, and 1928 do not include short-term notes paid by Highway Department, as follows:

1926	$ 800,000
1927	1,000,000
1928	1,000,000

DIAGRAM II

THE TREND IN TOTAL STATE EXPENDITURES 1911-1928

MILLIONS OF DOLLARS SEE TABLE VI



fore, does not exist as a thing in itself, but is shaped largely by the nature and volume of the duties that are being performed by the state. To understand the complex scheme outlined in the preceding chapter it is necessary to know what the state is doing; in other words, for what purposes the money is being spent.

The first thing of significance is the growth in total expenditures. In 1912 $4,128,000 was spent. By 1920 this figure was more than doubled, rising to $9,216,000, and in 1928 the unheard-of total of $35,126,000 was reached. (See preceding table).

During the same period expenditures were increasing in all states and the reasons for the increase in Tennessee are much the same as for the country as a whole. A rising price level, the transfer of many activities from local to state control, rapid industrial and economic developments along certain lines, requiring greater expenditures for regulatory and developmental purposes, and a new attitude toward what constitutes the legitimate sphere of govermental activity have all played a part, but the most important influences may be summed up in two words: roads and schools. Tennessee, for example, in 1915 spent nothing whatever for roads, and in 1916 only $1,357. In 1928 almost $20,000,000 or 56.47% of total state expenditures[1] went for highways and highway bridges. And the distribution in 1928 was not exceptional, for during the five years from July 1, 1923 to June 30, 1928, 49.93% of all state expenditures of Tennessee went for highway purposes. The following table shows the growth both in total and percentage.

TABLE VII

EXPENDITURES FOR HIGHWAYS IN TENNESSEE[1]

Year:	Total for Highways:	% of Total State Expenditure:
1922[2]	$ 4,663,998	33.46
1923	3,852,114	24.61
1924	5,145,491	33.00
1925	11,569,840	52.45
1926	12,322,766	51.41
1927	13,751,274	52.51
1928	18,598,241[3]	52.95
	1,235,945[4]	3.52

(1) Source: **Condensed Financial Statements** for various years.
(2) Figures are for fiscal year from July 1 to June 30.
(3) Highways.
(4) Highway bridges.

Education also has given rise to problems similar to those that have been or are being faced by other states. In many rural districts the school population is scattered, and taxable capacity is so low that it has been difficult to secure adequate funds. Short terms, makeshift or run-down school buildings, and poorly paid teachers have been all too common, and until recently the state's contribution was pitifully small. In

(1) Figures taken from **Condensed Financial Statement**, 1928.

1915, for example, total state expenditures for education of all kinds—normal schools, university, and aid to grade and high schools,—and including the cost of permanent improvements as well as operating expense amounted to only $1,651,000[2] or about $0.73 per capita. Since 1923, however, the state has assumed more responsibility in the hope of securing equal educational opportunity in all districts. A special subsidy system with revenues derived mainly from the tobacco tax has been established to provide funds both for buildings and teachers' salaries, the aim being to assure an eight month term in all districts, and an expansion of normal school facilities has been made in order to increase the supply of qualified teachers. The problem faced by the state university is also familiar—namely, how to provide accommodations for the great increase in enrollment following 1920. This has been solved in part by the adoption of a building program which authorizes an expenditure of $2,500,000 evenly distributed over a five year period.

As a result of these policies, state expenditures for education, according to the Census Bureau classification, have increased 3½ times from 1915 to 1926, rising from $1,651,000 to $5,738,000, and from $0.73 to $2.33 per capita. The full effect of the new policies is not shown in these figures, however, since some of them were inaugurated after 1926. Table VIII taken from the financial statements issued by the State Department of Finance and Taxation shows the trend from 1922 through 1928. Because of slight differences in classification, these figures are not comparable with those of the Census Bureau, but they show the trend during the period when the most rapid increases were taking place.

TABLE VIII

EXPENDITURES FOR EDUCATION

Year:	Amount:	% of Total State Expenditures
1922	$3,430,866	24.61
1923	4,725,921	30.19
1924	4,315,915	27.64
1925	4,734,453	21.46
1926	5,518,394	23.02
1927	5,616,156	21.44
1928	8,071,202	22.98

The third largest item in state expenditures is for penal and charitable institutions. The state maintains three state hospitals, two prisons, and a number of charitable or correctional institutions, such as schools for the blind, the deaf and dumb, an agricultural school for boys, a vocational school for girls, a home for the feeble-minded, and a home for Confederate veterans. According to Census Bureau figures, expenditures for these purposes amounted in 1915 to $1,148,822, or $0.51 per capita. By 1926 they were practically doubled, rising to $2,282,262, and to

(2) Financial Statistics of States, Bureau of the Census 1915.

$0.93 per capita. In the earlier year they accounted for approximately 21% of total state expenditures, but by 1926 had fallen to 9% simply because total expenditures had increased more rapidly. Table IX shows the trend since 1922 as given by the State Department of Finance and Taxation.

TABLE IX[1]

EXPENDITURES FOR PENAL AND CHARITABLE INSTITUTIONS

Year	Expenditures for Penal and Charitable Institutions	% of Total State Expenditures
1922	$2,018,510.21	14.48
1923	1,936,625.70	12.37
1924	2,161,128.07	13.84
1925	2,404,172.60	10.90
1926	2,505,528.36	10.45
1927	2,850,205.55	10.89
1928	2,780,274.96	7.91

(1) Taken from "Condensed Financial Statements", Department of Finance and Taxation.

After this brief survey we are ready to answer two vital questions: (1) Where is the bulk of state money now going? (2) What is the reason for the rapid increase in recent years?

As already indicated, the first question can be answered in two words—roads and schools. In 1928 56.47% of total state expenditures went for highways and highway bridges, and 22.98% for schools, or a total of 79.45% for the two purposes. Furthermore, the distribution in 1928 was typical of the distribution that has existed for several years. During the five-year period from July 1, 1923, to June 30, 1928, 50.93% went for highways and highway bridges, and 22.98% for education, or a total of 73.91%

The answer to the second question is the same. If we rule out roads and schools, state expenditures have shown little tendency to increase. This is clearly brought out in Table X which gives state expenditures for all purposes other than highways and education.

TABLE X

EXPENDITURES FOR ALL PURPOSES OTHER THAN HIGHWAYS AND EDUCATION

Year	Amount	% of Total State Expenditures
1922	$5,844,898	41.93
1923	7,075,004	45.20
1924	6,155,351	39.41
1925	5,754,641	26.09
1926	6,128,659	25.57
1927	6,818,152	26.05
1928	7,221,063	20.55

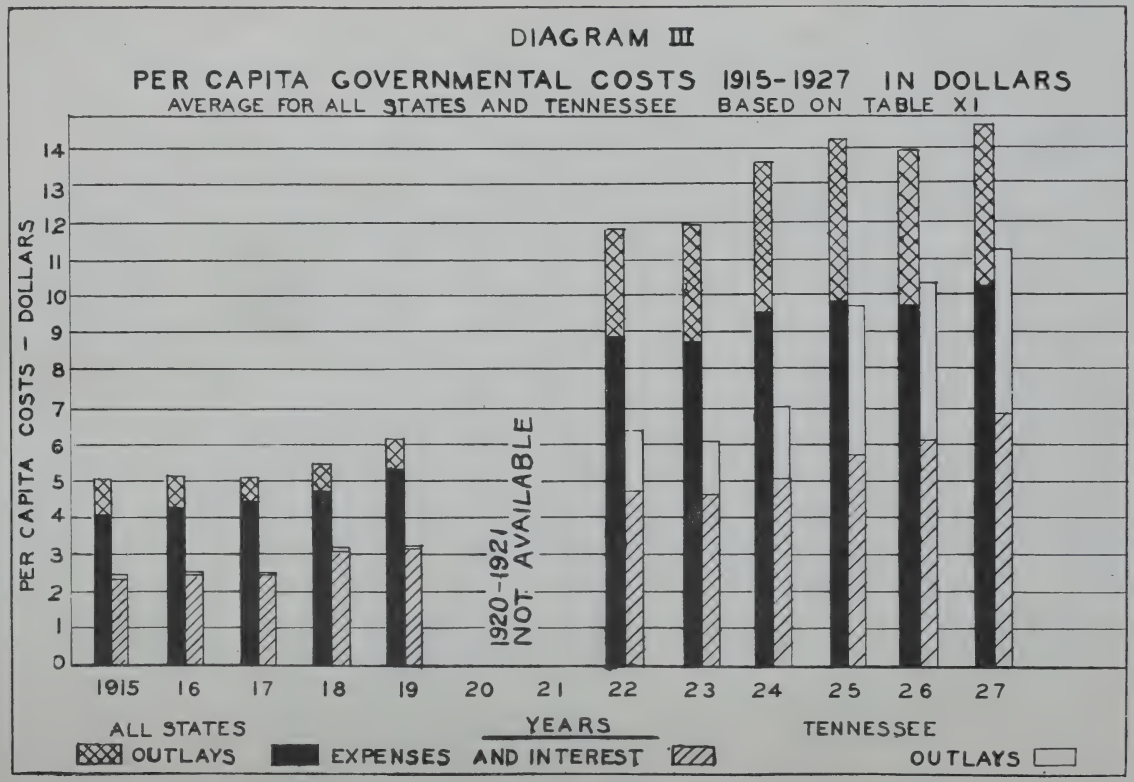


DIAGRAM III
PER CAPITA GOVERNMENTAL COSTS 1915-1927 IN DOLLARS
AVERAGE FOR ALL STATES AND TENNESSEE BASED ON TABLE XI
PER CAPITA COSTS - DOLLARS
0
1
2
3
4
5
6
7
8
9
10
11
12
13
14
1915
16
17
18
19
20
21
22
23
24
25
26
27
1920-1921 NOT AVAILABLE
YEARS
ALL STATES
OUTLAYS
EXPENSES AND INTEREST
TENNESSEE
OUTLAYS

Costs of some services, notably agricultural, health, and administrative activities, have grown, but such increases have been offset partially by decreases in expenditures for Confederate pensions.

To put the matter a little differently, expenditures for highways and education increased 244.7% from 1922 to 1928 whereas all other expenditures increased only 23.5%. This puts the matter up squarely to those who complain that the state is spending too much money. If any appreciable reduction is to be made it must begin with schools and roads, for if all other expenditures had been eliminated entirely in 1928 costs would have been reduced only twenty cents in each dollar.

Expenditures in Tennessee Compared With Those in Other States

Few taxpayers are satisfied, however, merely to know where the money is going, or to know the reasons for the increase in certain periods. They may give hearty support to roads and schools, for example, but still believe that too much is being spent, or that the money is not being used to the best advantage. Unfortunately there is no yardstick to determine just how much should be spent for various purposes. In the last analysis the question is determined in much the same way as personal expenditures are, by a very general consideration of whether the services performed are worth the cost. In public affairs, however, this is decided by mass rather than individual opinion which is expressed directly through the ballot, or indirectly through actions of the people's representatives. Neither is there any direct way of determining whether the money that is expended is expended wisely, without resort to very detailed and specific analysis of the methods used, which would require the services of experts in the various fields.

In the absence of such direct measurements, it is possible to throw some light on the problem by making comparisons with other states. The results, it is true, will not be conclusive, but at least they will show to what extent Tennessee is in line with other states.

Because of differences in area, population and wealth, comparisons of total expenditures of the various states would have little significance. This difficulty may be offset in part by reducing figures to a per capita basis. Such a measure takes no account of differences in aggregate wealth or the forms that wealth assumes, such as manufacturing, public utilities, or agricultural wealth, all of which have considerable bearing on the amount of expenditures required, but as between states with similar industries it is a convenient and helpful measure of governmental costs. The trend in governmental costs from 1915 to 1926 for the country as a whole and for various states of the southern section of the United States is shown in Table XI, the data being adapted from the Census Bureau publication, Financial Statistics of States.

From these figures we find that per capita governmental costs in Tennessee in 1926 amounted to $10.41 as compared with $13.95 for the country as a whole. Of the fifteen other southern states listed, only

Table XI

Trend in Per Capita Governmental Cost—Payments in Selected States, 1915-1926.

(Expenses, Interest and Outlays)

Adapted From Financial Statistics of States

	1915	1916	1917	1918	1919	1922	1923	1924	1925	1926
Average—U. S.	5.03	5.10	5.08	5.47	6.09	11.82	11.95	13.61	14.34	13.95
South Atlantic	3.35	3.33	3.28	3.56	3.92	8.62	11.33	12.78	13.00	13.33
Delaware	4.04	4.16	4.04	5.44	8.93	24.89	32.05	33.86	31.42	31.15
Maryland	8.63	8.26	7.77	8.13	8.43	12.06	14.81	14.07	15.71	14.54
Virginia	4.12	3.94	4.04	4.53	4.71	10.62	11.90	13.38	13.54	12.86
W. Virginia	2.74	3.03	2.86	2.82	3.65	7.91	12.72	15.76	15.47	15.75
N. Carolina	2.14	2.04	2.05	2.22	2.55	9.58	16.17	19.09	17.27	16.16
S. Carolina	1.87	1.94	2.06	2.15	2.41	4.08	4.94	7.17	9.20	9.70
Georgia	2.28	2.25	2.31	2.62	2.81	5.34	5.92	6.42	6.95	9.11
Florida	3.54	4.09	3.76	3.98	4.47	11.18	12.17	11.95	12.73	15.55
East South Central	3.05	3.25	3.21	3.48	3.68	7.20	7.30	8.89	10.16	10.24
Kentucky	3.68	4.24	4.27	4.53	4.92	7.71	7.87	9.93	11.06	11.02
Tennessee	2.45	2.55	2.49	3.11	3.19	6.39	6.07	7.01	9.71	10.41
Alabama	3.29	3.52	3.35	3.37	3.43	7.00	8.24	9.36	10.59	10.30
Mississippi	2.70	2.52	2.59	2.78	3.05	7.85	6.88	9.35	8.90	8.84
West South Central	3.69	3.58	3.69	4.12	4.96	8.35	9.00	9.86	12.89	12.58
Arkansas	2.46	2.35	2.59	2.56	3.13	3.90	4.29	5.93	10.74	10.22
Louisiana	5.58	3.59	3.58	3.92	4.13	11.06	11.47	12.94	13.59	13.80
Oklahoma	2.73	2.99	2.97	3.86	4.47	7.17	8.84	9.46	12.29	13.06
Texas	3.87	4.37	4.54	4.95	6.28	9.48	9.86	10.32	13.67	12.78

five were spending less than Tennessee, and in two cases—Alabama and Arkansas—the difference was very slight. Most of these five states are less developed industrially than Tennessee, and are characterized by large negro populations, the percentage ranging from 51% and 52% for South Carolina and Mississippi to 27% for Arkansas, as contrasted with 19% for Tennessee. In the entire United States there were only seven states spending less than Tennessee in 1926, Ohio ($7.95) and Kansas ($9.86) in addition to the five southern states.

This comparison helps to explain the rapid increase in costs of goverment in Tennessee in recent years. As shown in the table, Tennessee was spending only $2.45 per capita in 1915, or less than half the average for all states, and only three states were spending less. Between 1915 and 1926 per capita costs in the country as a whole increased 177% compared with 325% for Tennessee, which was a greater increase than was shown for any of the three sections or divisions. But in spite of this large increase, Tennessee's per capita costs in 1926 were only 75% as large as average costs for the country as a whole, and considerably below the average for the South Atlantic and the West South Central sections. In other words, the larger increase in Tennessee merely represents an attempt to catch up with the procession.

TABLE XII

% INCREASE IN GOVERNMENTAL COST PAYMENTS
(Expenses and Interest plus Outlays) 1926 over 1915

	Per Capita Costs		% Increase
	1915	1926	1926 over 1915
United States	$5.03	$13.95	177.3%
Tennessee	2.45	10.41	324.9
South Atlantic	3.35	13.33	297.9
East South Central	3.05	10.24	236.0
West South Central	3.69	12.58	249.2

In education the situation is almost exactly the same. In 1915 per capita costs in Tennessee were $0.73 compared with an average of $1.60 for the United States, and only three states were spending less. From 1915 to 1926 costs in Tennessee increased 219% compared with 144% for the country as a whole, but even then they fell far below, $2.33 as against $3.90, and only five states were spending less. The large expenditures in 1928, largely for permanent improvements, will place her more on a par with other states but educational costs in Tennessee are still in no sense excessive, comparatively speaking.

WILL EXPENDITURES FOR ROADS AND SCHOOLS BE REDUCED?

The importance of these figures lies in the light they throw upon future expenditures. Are we going to continue to devote from $13,000,000 to $15,000,000 annually, or more than half of total state expenditures, to roads? Will schools continue to take $5,000,000 to $8,000,000 a

year, or more than one-fifth of total expenditures? The decision, of course, will be made by the people themselves, acting through their representatives in the legislature; and they will vote for expansion or reduction of expenditures according to whether or not they believe that the benefits derived are in proportion to the cost. Regardless of what decision is made, it is clear that total expenditures can be changed but little unless changes are made in the cost of roads and schools. If it had been possible during the five years, 1924-1928, to eliminate completely expenditures for all other purposes except roads and schools, the total cost of state government would have been reduced only about 27%, for these two functions absorbed 72.9% of the total during this period.

At present there seems to be little disposition to reduce either item. On November 15, 1928, 6,515 miles of road had been designated as the state highway system. Although this mileage has not been completely improved, the legislature in 1929 voted to expand the state system to 7,500 miles, and authorized the issuance of $25,000,000 short term notes to speed construction, and at the same time adopted an extensive program for assisting counties in the development of local or community highways. If the experience of other states in which highway construction has been under way for a longer time may be taken as a guide, Tennessee may look forward to the following developments: (1) a continuous and gradual expansion of the highway mileage for which the state government assumes financial responsibility; (2) an almost indefinite continuance of construction costs even after the designated state system has been completed, according to present standards. Increasing traffic leads to the substitution of more costly materials—concrete for gravel or asphalt, widening of existing highways to provide two or even four complete traffic lanes, etc.; (3) rapidly mounting costs for maintenance and repair, due to the constantly greater mileage to be maintained, and to the greater depreciation in the later life of the road.

Neither is there any apparent tendency to reduce expenditures for education. In 1926 Tennessee ranked far down the list in expenditures for education, for in not more than half a dozen states were per capita costs lower than in Tennessee. The tendency in all states has been: (1) to improve the quality of instruction by raising the standards to be met by teachers, by paying higher salaries, by consolidating schools, and by improving the physical equipment—buildings, etc.; (2) to lengthen the period during which instruction is available by providing high school, and even college and university training for as large a number as possible. To carry out such a program means the transfer of more and more responsibility to the state. This policy is already under way in Tennessee and there are few signs of abatement.

CHAPTER III

THE DEVELOPMENT OF THE REVENUE SYSTEM

The rapid increase in governmental costs has made necessary the development of new sources of revenue. This is a difficult matter

for any state, but it has been exceptionally difficult in Tennessee because the constitution under which the state now operates was adopted in 1870 and in it are many restrictions which reflect the sentiments and ideas that prevailed during the Reconstruction period. The main clauses relating to taxation may be summarized as follows:

1. All property, real, personal, and mixed shall be taxed, but—
2. The legislation MAY exempt property held and used for government purposes, or for purely religious, charitable, scientific, library or educational purposes.
3. It SHALL exempt one thousand dollars worth of personal property in the hands of each taxpayer.
4. It SHALL exempt the direct produce of the soil in the hands of the producer and his immediate vendee.
5. All property shall be taxed according to value, so that taxes shall be equal and uniform throughout the state.
6. No one species of property from which a tax may be collected shall be taxed higher than other species of property of the same value.
7. The legislature shall have power to tax merchants, peddlers or privileges in such manner as they may from time to time direct.

Because of these provisions the legislature in its attempts to increase state revenues has been forced to choose between two alternatives: either increase the rate of tax on property, which must be uniform on all classes, or widen the scope of privilege taxes. Fortunately the term "privileges" has proven very elastic and under this heading it has been possible to secure judicial approval of a large number of taxes. The most common exercise of the power is represented by the biennial enactment of a "Revenue Bill" in which from eighty to one hundred and fifty occupations and businesses are declared to be "privileges" and therefore subject to tax. Rates are usually graduated according to some external indicia supposed to represent earning power. Hotels pay rates graduated according to prices charged per room; manufacturers of patent medicines, according to gross aggregate sales; movie theatres, according to seating capacity; cotton seed mills and compresses, according to output; motor busses, according to carrying capacity, and construction companies, according to aggregate annual contract prices. The most usual method, however, is to graduate the rates according to the population of the city or town in which the business is located, antique shops, for example, being required to pay $20.00 if located in a city, town, or taxing district having a population of less than 50,000, $35.00 if the population is between 50,000 and 100,000, and $50.00 if it exceeds 100,000. In some cases there is evidence of an intention to regulate the business or tax it out of existence by using excessive rates.

When "privilege taxes" are spoken of it is usually the above occupational taxes that are referred to, but the privilege clause has been

used to justify a number of other important levies, such as the tax on gross premiums of insurance companies which was enacted in 1887, and the inheritance tax, adopted in 1891[1]. Recent years have seen several extensions of privilege taxes in this broader sense. In 1923 the legislature imposed an excise or privilege tax on certain corporations of 3% on net earnings from intra-state business, and in the same year placed a tax of two cents, which in 1925 was raised to three cents, and in 1929 to five cents on each gallon of gasoline sold or distributed in the state. In 1925 a tax of 10% of the intended sales price of various kinds of tobacco was imposed. None of these levies is specifically authorized by the constitution, but all are upheld by the courts because the legislature in effect has declared the various activities to be privileges and subject to tax. The reasons back of their adoption are important enough to justify a brief excursion into history.

The present tax reform movement dates back at least to 1915 when Governor Tom C. Rye appointed a Committee to investigate the question of assessment and taxation in the state, in accordance with a Senate Joint Resolution. The report submitted by the Committee was not heavily loaded with statistics, but enough study was made to discover the usual inequities that prevail under the property tax: 1. Individual properties assessed from 10 to 80 percent of actual cash value, instead of the 100 percent required by law. 2. Tax aggregates for counties that constituted as low as 25 percent of the actual value of property in the county. 3. Larger property owners under-assessed as compared with owners of small farms and small homes in cities. 4. Many assessors merely copying the old tax books instead of assessing the property. 5. Increases in total assessed values running far behind the increases in wealth shown by census reports. 6. "Competitive under valuation" between counties, the bases of assessment in adjoining counties varying between 25 and 60 per cent of actual value, and lastly, the almost total escape of intangibles, bank stocks being "the only personal property———at all adequately assessed."[2]

The commission believed many of the evils were due to failure of the ex-officio boards of equalization to function properly, and recommended the creation of a permanent tax commission to have supervision over assessment and equalization, with limited power to appoint and remove assessors. Another reform suggested was that holders of certain intangibles be taxed on the income from such property.

Bills embodying these proposals were presented to the legislature in 1915 but in spite of Gov. Rye's insistence that they be passed the legislature adjourned without taking any action.[3] Similar bills were introduced in 1917 and again were supported by the Governor, who pointed out that on January 1, 1917, the state faced a current deficit of $1,025,000, but again no action was taken. Mounting deficits finally

(1) C. O. Brannen. **Taxation in Tennessee**, p. 128, and p. 136.
(2) Report of Committee to investigate Assessment and Taxation in state of Tennessee, 1915. pp. 8-13.
(3) First Biennial Report of State Tax Commissioner, 1921-2, p. 18.

forced action and in 1919 the legislature conferred on the Railroad Commission powers formerly exercised by the State Board of Equalization[4] and enacted a "sliding scale" of rates to prevent the accumulation of a surplus in the treasury due to the anticipated increase in assessed values[5].

The Commission soon found that equalization on the basis of existing assessments was impossible, and proceeded to supervise the revaluation of every piece of property in the state. When completed in 1920 total assessed values of all property were increased by more than $1,200,000,000,[6] or about 167%, and tax rates were decreased from 55 cents per $100 in 1919 to 26 cents in 1920. Unfortunately the assessment was made when property values were almost at the very peak of inflation. With the sharp break in prices came strong pressure for lowered assessments, but under existing legislation no relief could be secured until 1922, since real estate was to be assessed only once every two years. The legislature came to the rescue, however, by ordering a complete assessment in 1921[7] which when made, reduced total assessed values about 12½% from the 1920 level.[8] This undoubtedly served to correct some of the inequality between individuals that would have resulted from the irregular nature of deflation, but for the body of tax-payers as a whole the relief was more nominal than real, since the tax rate was increased under the "sliding scale" arrangement to secure approximately the same amount of revenue as before.

With the completion of the assessment in 1921 one phase of the tax reform movement begun in 1915 came to an end. It had not been possible to provide a separate method for taxation of intangibles, but two objects had been accomplished: a much wider taxing base was provided by the remarkable increase in assessed values, and many inequalities between individuals, between various types of property, and between taxing districts were ironed out, both of which were secured by increasing the degree of state supervision of assessment and by strengthening the equalization machinery.

In the meantime other conditions had developed which demanded reform, two of which centered around the land tax, and the proper methods to be used in financing education and highways. Prior to 1915 little attention had been paid to highway development, but in that year an unpaid six-man commission was created[9] and an automobile registration fee imposed[10] with 90% of the proceeds reverting to the county of collection. No serious attempt was made to secure revenue until 1917 when a special tax of one half of one mill was imposed on property, to be expended on the state system under supervision

(4) Chapter 1. Public Acts of 1919.
(5) Chapter 2. Public Acts of 1919.
(6) First Biennial Report of State Tax Commissioner, pp. 312-3.
(7) Chapter 93, Public Acts of 1921.
(8) First Biennial Report of State Tax Commissioner, p. 130.
(9) Chapter 100, Public Acts 1915.
(10) Chapter 8, Public Acts 1915.

of the Commission.[11] With the numerous changes that occurred in the next few years with respect to apportionment of the funds and control over their expenditure we are little concerned. It is sufficient to note that in 1923 when Governor Peay assumed office, administration of the Highway Department was in the hands of a paid three-man commission, that roads were being built as a joint undertaking with funds furnished both by county and state, that the annual state revenue available (including Federal Aid) amounted to about $4,250,000[12] derived mainly from the one-half mill tax on property ($800,000), and from automobile fees ($1,500,000). The state had adopted the pay-as-you-go policy for its own share of the funds, but had authorized the counties to borrow, and since they were required to match the state funds to secure roads, a large county debt was piling up.

Financing education has always been a problem in Tennessee. Up to 1909 state assistance was insignificant, main reliance being placed in the interest from a public school fund derived from the sale of public land grants, and amounting to about $150,000 per year.[13] Legislation enacted in 1909 attempted to enlarge and place the funds on a more stable basis by setting aside for educational purposes 25% of the gross revenues of the state, which was to be distributed to the state university, and to elementary, high, and normal schools on a complicated percentage basis.[14] Numerous changes in details were made but the essentials of the system remained until 1917 when the university was removed from its provisions and a special tax of one half mill levied for its support.[15] The next legislature carried the plan a little further by imposing another tax of one half mill (later increased to eight-tenths of a mill) for the support of common schools.[16] The effect of these various laws was a decided expansion in state expenditures for education, which rose from $1,680,845 in 1916 to $4,189,508, in 1922.[17]

Few will deny that increased revenues for both roads and schools were imperative, yet the method used to secure them was subjected to wide-spread criticism. The primary purpose of the reform movement initiated in 1914 and 1915 was to secure a more even distribution of the tax burden by placing more of it on intangibles and by enforcing uniform 100% assessments. When equalization was undertaken in 1919 special provision was made that increased assessments would not result in more taxes by enacting a "sliding scale" of rates. The levy for rural schools, however, was not subject to these provisions, and succeeding legislatures defeated the original purpose by removing the university tax and the highway tax from its application. As a result,

(11) Chapter 74, Public Acts 1917.
(12) Biennial Report Highway Commission, 1921-22.
(13) Biennial Reports of Comptroller of Treasury. 1901 to 1909.
(14) Chapter 264, Public Acts 1909.
(15) Chapter 35, Public Acts 1917.
(16) Chapter 111, Public Acts 1919.
(17) Financial Statistics of States, 1916, 1922.

total state levies against property rose from $2,390,000 in 1916 to $6,046,000 in 1921, and to $6,231,000 in 1922.[18] Such an increase at any time would be likely to arouse resentment; coming during a period of lowered prices, it developed intense feeling, particularly among the farmers, who clamored for relief and in 1922 elected a governor pledged, among other things, to repeal the iniquitous "sliding scale," reduce land taxes by $1,000,000, and re-organize the state tax department supposed to be responsible for higher assessments, and therefore, higher land taxes.

The existence of a deficit of almost $2,600,000 on December 1, 1922[19] made tax reduction appear impossible. But by rigorous economy expenditures during the fiscal year 1923-1924 were kept almost stationary, and before the legislature adjourned in 1923 it had "kept faith" with the farmers by abolishing the half mill tax for highway purposes and the one tenth of a mill levy for state fairs, which together represented a reduction of almost $1,000,000 in property taxes. To make up the loss in highway funds a gasoline tax of two cents per gallon of gas was adopted[20] while the necessary increase in general revenues was secured by the imposition of an excise tax on net earnings of corporations[21], the latter being adopted mainly through the determined and able leadership of Governor Peay.

At the beginning of his second term Governor Peay directed attention to the inadequate appropriations for education and charitable institutions. Strongly opposed to borrowing, and even more strongly opposed to increased land taxes, he advocated a sales tax on tobacco with the proceeds devoted to educational purposes. After another long and bitter fight the plan was adopted, and the major part of the revenues segregated to provide an eight months term in rural districts and to build school buildings.[22] At the same time further relief was given to property owners by reducing the regular levy for general state purposes from seventeen to twelve cents, making a total state rate of twenty-five cents, and the gasoline tax raised to three cents to enlarge highway funds.

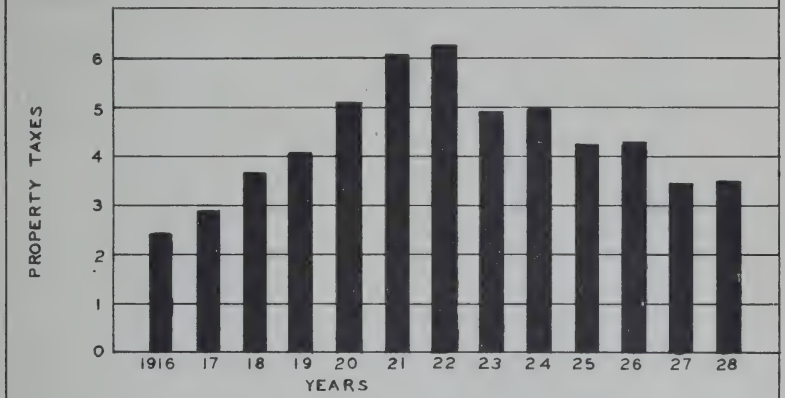
The most noticeable effect of this later reform movement is the redistribution of the tax burden, with property owners the beneficiaries. For seventeen years, from 1900 to 1916, inclusive, the state rate on property remained stationary at thirty-five cents on the $100 of assessed valuation. The period 1917 to 1922, however, was characterized by steady increases in property taxes due either to increases in rates or to the higher valuations resulting from the re-assessment already referred to. Since 1922 collections have declined about 45% due to the lowering of rates.

---

(18) First Biennial Report of the State Tax Commissioner, pp. 316-8.
(19) Governor's Message, Senate Journal, 63rd Assembly, 1923, p. 100.
(20) Chapter 58, Public Acts, 1923.
(21) Chapter 21, Public Acts, 1923.
(22) Chapter 115, Public Acts of 1925. Re-enacted in C. 2. of Public Acts of 1927.

DIAGRAM IV

PROPERTY TAXES LEVIED FOR STATE PURPOSES - MILLIONS OF DOLLARS *



* INCLUDES TAXES ON REAL ESTATE, PERSONALTY, AND PROPERTY OF PUBLIC UTILITIES (SEE APPENDIX B)

DIAGRAM V

THE RELATIVE IMPORTANCE OF THE PROPERTY TAX 1900-1928. RATIO OF PROPERTY TAXES TO TOTAL STATE RECEIPTS, EXCLUSIVE OF BORROWING. PROPERTY TAXES

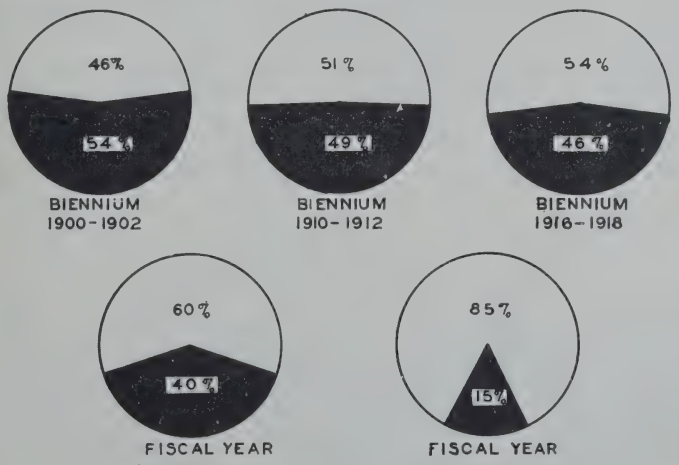


TABLE XIII

Year	Rate Per $100 of Assessed Valuation[1]	Taxes Collected[2]
1916	35c	$1,869,665
1917	50	1,913,984[3]
1918	50	2,761,229[4]
1919	55	(change in fiscal year)
1920	26	3,211,077
1921	35	3,810,641
1922	36	5,074,624
1923	30	4,824,553
1924	30	4,295,374
1925	25	3,837,128
1926	25	3,490,096
1927	20	3,351,551
1928	20	2,714,986

(1) From 1916 to 1925, inclusive, rates are taken from Biennial Report of Comptroller of the Treasury; for 1926, 1927, and 1928, from "Condensed Financial Statements", issued by Department of Finance and Taxation.
(2) From 1916 to 1921, inclusive, figures are taken from Biennial Reports of Comptroller of the Treasury; 1922 to 1928, from "Condensed Financial Statements" of the Department of Finance and Taxation. These figures cover only property taxes collected by county trustees, thus excluding property taxes paid by public utilities and merchants.
(3) Figures cover the period from December 20, 1916, to January 1, 1918.
(4) Figures cover the period from January 1, 1918, to December 19, 1918.

At the same time that property taxes were being reduced total state revenues were being enlarged considerably by the levy of new taxes—the gasoline tax, the corporate income tax, and the tobacco tax. As a result, there was a sharp decrease in the relative importance of the property tax as a revenue producer, as shown in Table XIV which gives the ratio of property tax receipts to total receipts of the state government (exclusive of borrowing) for certain typical periods.

TABLE XIV

Biennium	1900 to 1902	54%
Biennium	1910 to 1912	49%
Biennium	1916 to 1918	46%
Fiscal Year	1922	40%
Fiscal Year	1928	15%

REDISTRIBUTION OF THE TAX BURDEN

These two developments—widening the scope of privilege taxes and reducing the rates on property, have caused a noticeable redistribution in the tax burden. In the biennial period 1900-1902 approximately 54% of the total receipts of the state government, exclusive of borrowing, were derived from property taxes[23]; in 1910-1912 the proportion was 49%; in 1922 slightly more than 40%; and in 1928 slightly more than

(23) Including the tax on general property, the ad valorem tax on merchants, and the property tax paid by public utilities.

15%. To a certain extent this trend is desirable. With a larger number of tax sources revenues become more steady and dependable, for decreases in receipts from one source are often offset by increases in another. The wider tax base also tends to distribute the burden more equitably, assuring that each group makes some contribution to the cost of government.

The interest of most tax payers, however, is not in the past developments, but in the future. Since state expenditures show little sign of decreasing, how are the necessary funds to be provided?

Objections to Extension of Privilege Taxation

As already indicated, the possibilities under the present constitution are rather limited. On the one hand, greater amounts might be secured from the property tax,—a development which seems contrary both to the trend of legislation in recent years and to prevailing sentiment among a large part of the population. On the other, more and more activities might be defined as privileges and subjected to taxation for state purposes. There seems to be no definite limits to the latter movement, for the courts appear favorably disposed toward privilege taxation, provided the privilege is specifically named, and provided the classification is reasonable, not arbitrary. The main objection is that it results in a chaotic tax system. Duplication of taxes is quite possible since some business may fall in two or more classifications, while the difference in rates applied and the variety of methods used to measure the privilege make it almost impossible to place equivalent burdens on various types of businesses.

There is an added danger in the tendency to make the privilege tax a sales tax. So long as the commodities selected are luxuries, personal expenditures for such commodities may indicate roughly ability to pay taxes. As the tax field is narrowed and sales of comforts or necessities are taxed, the burden is thrown more and more upon those least able to pay, for purchases of such commodities vary in accordance with need rather than the income of the purchaser. For these reasons, further extension of privilege taxation should be made only after careful study.

CHAPTER IV

STATE INDEBTEDNESS

No statement of the finances of Tennessee would be complete without some reference to state indebtedness. In 1900 the state debt amounted in round numbers to $16,000,000, and from 1900 until 1927 it fluctuated around this figure, never rising above $16,000,000 and never falling below $11,000,000. In 1925 the legislature authorized bond and note issues on a larger scale. This was continued by succeeding legislatures and as a result the total debt of the state on June 30, 1929, amounted to approximately $80,000,000, as contrasted with $14,000,000 to $16,000,000 in the decade previous.

The effect of borrowing on state finances is two-fold. When taxes and other current receipts are inadequate, the sale of bonds and notes provides funds immediately to carry on a desired state activities and does so without increasing the burden of taxation. This makes it possible for the people to enjoy the services now without being called upon to meet the cost. But in reality borrowing is not a source of revenue at all. Sooner or later increased taxes must be secured to meet interest payments and to repay the bonds themselves. Borrowing at best, then, is but a device for postponing taxation. As stated above, the effect is two-fold: greater expenditures are possible when the borrowed funds become available; later payments of interest and principal reduce the expenditures that can be made for other purposes.

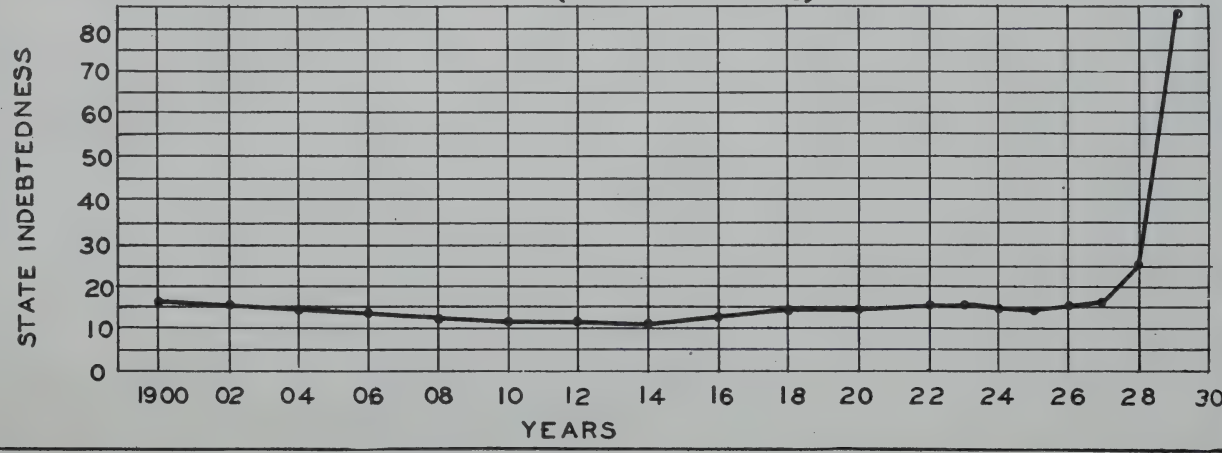
Because of these effects there has been much discussion as to when bonds or notes should be used. In general it is agreed that borrowing is justified: (1) to meet a temporary deficit in current revenues or to anticipate tax receipts; (2) to provide for an emergency, such as war, floods, or other occurrences that require funds so quickly and in such quantity that they cannot be secured by increased taxes: (3) to construct or acquire permanent properties such as roads, school buildings, hospitals, etc., that will yield services over a considerable period of time.

When borrowed funds are used for the third purpose, sound practice requires that certain principles be followed. First, the maturity of the bonds should not extend beyond the life of the properties acquired. This is necessary in order to place the burden on those who benefit by the services rendered, and also to leave the next generation free to finance its own improvements. Second, the debt should be repaid serially or in installments rather than in a lump sum at the end of a definite period. Such practice not only distributes the tax evenly over the period but also makes for considerable reduction in total interest payment, and avoids the danger that sinking funds will be wrongfully used. Third, as soon as a debt is incurred additional taxes should be levied to guarantee its retirement. Let us see to what extent these principles have been followed in the creation of the present state debt.

As noted above, the state debt on December 19, 1900, amounted to approximately $16,288,000. Of this amount, $600,000 were penitentiary bonds issued in 1893, but by far the greater part (about $15,000,000) consisted of obligations issued from 1883 to 1893 in settlement of debts arising directly and indirectly out of the Civil War. Older citizens will recall that a huge debt was piled up during and immediately after the Civil War, largely through extensions of credit to railroads and other forms of internal improvements. For several years there was a heated dispute as to whether it should be paid due to the uncertain legality of the government and the questionable manner whereby it had been incurred. Finally in 1883 after some half dozen proposals had failed, an agreement was reached and settlement bonds issued to take up the old obligations. When refunding began the total state debt amounted to about $28,786,000, of which about $26,000,000

DIAGRAM VI

THE TREND IN STATE INDEBTEDNESS 1900–1929 – MILLION OF DOLLARS
INCLUDES FUNDED DEBT, COUNTY HIGHWAY BONDS ASSUMED BY THE STATE,
AND SHORT TERM HIGHWAY NOTES (SEE APPENDIX C)



represented either the original internal improvement or the later "Brownlow" debt. One feature of the agreement was that this $26,000,000 should be scaled down and paid at the rate of fifty cents on the dollar, and the total debt was accordingly reduced to less than $16,000,000.

To speed redemption of the debt an act, passed in 1899 and going into effect January 1, 1900, provided that 10% of the gross receipts of the state, less the penitentiary receipts, should be set aside for a sinking fund. This provided a constant flow of funds and the debt was steadily reduced from $16,288,000 in 1900 to a low figure of $11,417,000 in 1914. Rapid reduction had been checked, however, in 1911 by an act which suspended operation of the sinking fund law.

The "settlement" and "redemption" as well as the penitentiary bonds matured in 1913, and the state was obliged to provide for refunding. Difficulty was encountered in getting desirable interest rates on the new bonds and it was decided to issue obligations for one year only. But in 1914 similar trouble was met and again one-year obligations were issued. By 1915 conditions had improved and $11,781,000 of serial refunding bonds, series of 1915, were issued, some bearing 4% interest and some 4½%.

Since 1915 new bond issues have been authorized by every session of the legislature. The amounts, however, have usually been small, and since a part of the existing debt is cancelled each year under serial payment plans, the total state debt showed little tendency to increase until 1927. The amounts and purposes for which borrowing has been authorized since 1915 is shown in Table XV.

TABLE XV

INDEBTEDNESS AUTHORIZED SINCE 1915

Amount	Purpose	Authorization	Date of Issue
A. Bonds $ 1,000,000	Erection of buildings at the University of Tennessee, and at the Agricultural Experiment Stations.	Ch. 35, Public Acts of 1917	July 1, 1917
300,000	Erection of buildings at the various state hospitals for the insane	Ch. 93, 1917	
80,000	Erection of buildings, making of improvements, and purchase of live stock and equipment for the Tennessee Reformatory for Boys on the Herbert Domain	Ch. 91, 1917	July 1, 1917
990,000	Establishment of a park, and erection of a Memorial Hall (to be used as a Capitol Annex) in honor of Tennessee Soldiers in the World War	Ch. 122, 1919	Jan. 1, 1921

TABLE XV—(*Continued*)

Amount	Purpose	Authorization	Date of Issue
625,000	Acquisition of additional buildings, equipment and other permanent improvements at the various state normal schools	Ch. 117, 1917, as amended by Ch. 185, 1919, and Ch. 79, 1921	Oct. 1, 1920
250,000	Erection of buildings and purchase of equipment at Tennessee Home and Training School for Feebleminded	Ch. 121, 1921	July 1, 1921
100,000	Acquisition of property adjoining or facing state capitol and its grounds	Ch. 48, 1921	July 1, 1921
250,000	Construction and equipment of buildings for Tennessee School for the Deaf and Dumb in Knoxville	Ch. 24, 1923, First authorized, Ch. 105, 1921	April 1, 1923
617,000	Payment of principal of certificates of indebtedness issued by the state and held by various educational and charitable institutions	Ch. 113, 1923	May 1, 1923
300,000	Completion and furnishing Tennessee Memorial Building and adjoining parks.	Ch. 74, 1925	July 1, 1925
350,000	Erection of additional buildings for the University of Tennessee at Memphis and Knoxville	Ch. 106, 1925	July 1, 1925
11,500,000	Construction or acquisition of highway toll bridges	Ch. 1, 1927, ($5,000,000), Ch. 6, 1927, ($4,500,000) Ch. 37, 1927 ($2,000,000)	
1,000,000	Construction and repair of rural school buildings	Ch. 88, 1927	
2,500,000	Construction and equipment of buildings for the University of Tennessee	Ch. 10, 1927	[1]
1,500,000	Acquisition of property for establishment of Great Smoky Mountains Park	Ch. 54, 1927	
B. Notes[3]		Ch. 72, 1925	[2]
5,000,000	Construction of Highways	Ch. 83, 1927	
10,000,000	Construction of Highways	1929	
25,000,000	Construction of Highways		
61,362,000	Total[4]		

(1) These are to be issued in five annual installments of $500,000 each. The first block was dated July 1, 1927.

(2) Highway notes are renewable, but maturity is limited to five years. The amount outstanding on June 30, 1929, was $24,700,000.

(3) In addition to the amounts listed, several short-term notes for $1,000,000 and $2,000,000 were authorized from 1919 to 1921 to take care of current deficits. The last, for $1,000,000, was paid July 1, 1923.

(4) The above compilation does not include the $30,000,000 county highway bonds that have been assumed by the state. Authorized by Ch. 23, Public Acts of 1927.

The above table shows the authorized indebtedness but not the size of the existing debt. The existing debt is smaller than this, (1) because not all of amount authorized has been issued, particularly the short term notes; (2) part of the authorized amounts were for temporary purposes only and were soon retired; (3) beginning in 1915 many of the bonds mature serially, which means that each year the old debt is reduced slightly. The outstanding indebtedness as of July 1, 1929, was $83,683,304.

TABLE XVI

OUTSTANDING INDEBTEDNESS AS OF JUNE 30, 1929

A. Bonded debt—	
1. General state purposes.	
Refunding bonds of 1915	$ 9,781,000
Refunding bonds of 1923	542,000
Victory Memorial, 1921	990,000
Capitol Improvement, 1921	85,000
Victory Memorial, 1925	300,000
Smoky Mountain Park, 1927	1,500,000
	13,198,000
2. Education	
University of Tennessee, 1917	780,000
University of Tennessee, 1927	1,000,000
University of Tennessee Certificates of Indebtedness, 1925	245,000
Normal Schools, 1920	625,000
Rural Schools, 1927	1,000,000
	3,650,000
3. Penal and Charitable Institutions	
Charitable institutions, 1917	100,000
Herbert Domain, 1917	20,000
Hospital Bonds, 1921	202,000
	322,000
4. Highways	
Bridge bonds, 1927	11,500,000
Total bonds	28,670,000
B. Short term highway notes	24,700,000
C. County highway bonds assumed by the state	30,313,304.60
Total direct and indirect indebtedness of the state	$83,683,304.60

With the majority of the debt the principles outlined above have been followed rather closely. With the exception of the short term notes authorized in 1919, 1920, and 1921, which were to handle temporary deficits, and the refunding bonds of 1923, all funds have been used to acquire or construct permanent properties such as schools, roads, hospitals, capitol buildings, etc. Many of the items were small and it would have been wiser, perhaps, to have included the cost in the current budget over a period of years and financed them by slight increases in taxation, thus eliminating interest charges, but the saving by this method would have been slight. Care has been used also to arrange maturities so that the debt will be redeemed during the life of the improvements. Another desirable feature is serial rather than sinking fund method of repaying the principal. All of the direct state bond issues since 1915 have provided for reduction by installments except the following:

TABLE XVII

Issue	Maturity
1) $990,000 Victory Memorial Bonds dated January 1, 1921	1961
2) $625,000 Normal School Bonds dated Oct. 1, 1920	1960
3) $250,000 Deaf and Dumb School Bonds dated April 1, 1923	1928
4) $11,500,000 Highway Bridge Bonds to be issued in three lots	Fifteen years from date of issue; callable after seven years
5) $1,000,000 Rural School Building Bonds	1947
6) $2,500,000 University of Tennessee Building Bonds. To be issued in annual blocks of $500,000 from 1927 to 1931, inclusive	Fifteen years after date of issue
Total $16,865,000	

Still another practice is that of devoting certain receipts to debt retirement. The bridge bonds, for example, are to be retired from tolls. To handle the county highway bonds one cent of the gasoline tax has been set aside, and former Commissioner Berry has estimated that if the present rate of increase (15% annually) continues the entire $30,000,000 will be extinguished by 1939. After 1932 one-tenth of one cent per gallon of the gasoline tax is to be devoted to payment of interest and principal of the Great Smoky Mountain Park Bonds, while portions of the tobacco tax are segregated to extinguish the $2,500,000 University of Tennessee bonds and the $1,000,000 Rural School bonds. No specific revenues are provided to handle the Highway Notes except the current revenues of the Highway Department from automobile licenses and the remainder of the gasoline tax. The use of these funds for debt purposes, of course, will restrict possible expenditures for construction and maintenance in the future, and it is not impossible that the notes will be funded into long-term obligations in order to use current revenues for increased construction. Even if this should happen,

it was probably wise to borrow since it permits rapid construction, which results in increased travel and greater revenues both from automobile licenses and the gas tax.

In spite of the generally desirable features of the existing debt, certain policies are subject to criticism. One of these concerns assumption of the $30,000,000 county highway debt. For a number of years roads were built under a co-operative arrangement between county and state with counties agreeing to furnish part of the construction costs. To secure these funds most counties were obliged to borrow and a large debt piled up. Finally pressure developed to shift this burden to the state and in 1927 the Legislature voted to assume the county bonds, agreeing to pay both interest and principal. For a number of reasons direct borrowing by the state in the beginning would have been better. With greater resources to draw on the state probably could have secured lower interest rates and marketed the bonds more favorably. It also would have been more likely to incorporate desirable features, such as providing for serial payments and making the bonds callable after a certain period. As it is, the interest rate is relatively high and the lack of the callable clause will probably prevent the state from effecting any economy by refunding at lower rates or more desirable maturities.

Neither were the conditions under which the highway bridge debt was created of the best. Location either of bridges or highways is primarily an executive or administrative job in the hands of expert engineers. When such a task is assumed by a legislative body the interest of the state as a whole is lost sight of thru the attempt of each member to secure advantages for his home district, and "log-rolling" or trading votes is the usual result. It is doubtful if some of the bridges can be justified on the basis of traffic needs and receipts from tolls may be negligible for a number of years, thus prolonging unnecessarily the life of the bonds.

The main dispute concerning the remainder of the highway debt has been over its maturity—that is, whether it should be in the form of bonds or short-term notes. Those favoring notes argue that the debt should be temporary only, that it merely anticipates tax receipts from licenses and gasoline, and should be repaid as quickly as such revenues, in excess of highway maintenance costs, are available. Those favoring bonds base their arguments on cost. To retire the debt from tax receipts it will be necessary to shut down on expenditures for construction. People will object to this and clamor for more roads. Instead of being paid at maturity the notes will be funded into long-term bonds. Long-term obligations can be floated at lower rates of interest than short-term, and it is better, therefore, say the exponents of bonds, to adopt long-term obligations at the outset and thus save the commissions involved in refunding as well as benefit by lower interest rates.

Just as with expenditures and taxation, it is interesting to see how Tennessee's indebtedness compares with that of other states. For comparable figures it is necessary again to turn to "Financial Statistics of States" issued by the Federal Bureau of the Census. The latest

figures are for 1927, and as we have seen, the large increase in Tennessee's debt was authorized by the 1927 Legislature. As might be expected Tennessee's gross indebtedness of $17,000,000 looked rather puny beside the leaders which were as follows:

TABLE XVIII

STATES WITH LARGEST TOTAL FUNDED OR FIXED DEBT OUTSTANDING AT END OF THE FISCAL YEAR, 1927[1]

New York	$342,000,309
North Carolina	153,419,200
Illinois	143,099,920
California	106,373,635
Pennsylvania	98,253,920
Michigan	91,628,399
New Jersey	77,216,000
Missouri	72,788,839
Oregon	64,047,660
South Dakota	59,264,700
West Virginia	56,598,648
Minnesota	56,115,859

(1) Based on "Financial Statistics of States", preliminary figures.

In many cases states have built up sinking funds to retire their indebtedness at maturity. The real burden on the taxpayer, therefore, is shown not by the *total* but by the *net* indebtedness, which is defined as total funded or fixed debt less sinking fund assets. When net indebtedness is converted into per capita figures we have a comparable measure of the burden of debt in the various states. On such a basis Tennessee ranked 29th in 1927 with a per capita debt of $6.96 compared with an average of $12.32 for the country as a whole. The twelve leaders were as follows:

TABLE XIX

STATES WITH LARGEST NET PER CAPITA INDEBTEDNESS, 1927[1]

North Carolina	$51.44
Oregon	40.76
Delaware	36.84
West Virginia	30.62
Maine	27.27
Rhode Island	26.15
California	24.20
South Dakota	21.67
New York	21.50
Nevada	21.32
Missouri	19.93
Illinois	19.33

(1) See footnote, Table XVIII.

If comparisons were made as of 1929, the standing of Tennessee would not be so favorable. Since 1927 much new debt has been incurred for roads, bridges, parks and schools, so that on June 30, 1929, the state debt, including highway notes and county highway bonds, amounted to approximately $80,000,000. On the basis of a population of 2,500,000 this would amount to a per capita debt of $32.00, which would place Tennessee well up among the leaders.

Some people object to including the $30,000,000 of county highway bonds that the state has assumed when counting the state debt. There has been no agreement, they say, between the state and the bondholder, and the bondholder has no legal right to look to the state for payment. The agreement was between the counties and state, and as such, may be modified in the future without impairment of the state's credit. This is undoubtedly true, in the legal sense, but the practical significance of a debt lies in the burden of payment imposed on the government, and as long as the present agreement holds, no matter with whom it was made, just so long must the state make payments on the bonds. However, in order to allow for the dispute, we may figure the per capita debt by deducting $30,000,000 highway bonds from the above total of $80,000,000. This gives a per capita debt of $20 in 1929, almost three times as large as in 1927.

TABLE XX

PER CAPITA INTEREST PAYMENTS 1915-1919, AND 1922-1926[1]

	1915	1916	1917	1918	1919	1922	1923	1924	1925	1926
Ave. All States	0.19	0.19	0.21	0.22	0.23	0.38	0.46	0.50	0.60	0.66
South Atlantic	0.20	0.21	0.21	0.22	0.22	0.33	0.42	0.60	0.68	0.83
Delaware	0.18	0.18	0.20	0.20	0.16	1.10	1.22	1.34	1.58	1.67
Maryland	0.45	0.60	0.65	0.76	0.78	0.84	0.91	0.93	0.93	0.92
Virginia	0.38	0.37	0.36	0.36	0.35	0.37	0.31	0.30	0.31	0.31
W. Virginia	.....	0.01	0.01	.....	0.01	0.63	0.70	0.99	1.14	1.38
N. Carolina	0.18	0.18	0.17	0.18	0.18	0.28	0.69	1.28	1.61	1.84
S. Carolina	0.18	0.17	0.17	0.15	0.14	0.14	0.22	0.20	0.19	0.20
Georgia	0.10	0.10	0.09	0.09	0.09	0.09	0.08	0.08	0.08	0.44
Florida	0.03	0.03	0.03	0.03	0.02	0.02	0.02	0.46	0.45	0.49
East South Central	0.21	0.22	0.22	0.24	0.24	0.27	0.30	0.32	0.37	0.40
Kentucky	0.12	0.13	0.15	0.15	0.18	0.16	0.17	0.16	0.25	0 33
Tennessee	0.34	0.30	0.30	0.36	0.35	0.36	0.36	0.34	0.33	0.32
Alabama	0.27	0.31	0.29	0.28	0.28	0.24	0.30	0.37	0.45	0.50
Mississippi	0.11	0.13	0.12	0.14	0.13	0.32	0.41	0.46	0.48	0.45
West South Central	0.19	0.12	0.10	0.11	0.11	0.12	0.12	0.11	0.11	0.11
Arkansas	0.02	0.02	0.01	0.09	0.03	0.07	0.07	0.09	0.07	0.07
Louisiana	0.69	0.36	0.34	0.34	0.33	0.36	0.35	0.34	0.34	0.38
Oklahoma	0.16	0.16	0.13	0.13	0.12	0.11	0.11	0.10	0.08	0.06
Texas	0.07	0.03	0.03	0.02	0.05	0.04	0.05	0.04	0.04	0.04

(1) Based on "Financial Statistics of States".

Because of differences in interest rates, an even better indication of the comparative burden of debt than the net per capita indebtedness is interest payments per capita. This ignores, of course, the annual pay-

ment on principal, but it does show the annual carrying charges of the debt. This is shown for the country as a whole, the southern sections, and certain comparable states in Table XX.

During the period 1915-1926 there has been a decided upward trend in interest payments. For the country as a whole per capita payments increased three and a half times, and only four (Virginia, Tennessee, Louisiana and Texas) of the sixteen states listed show lower payments in 1926 than in 1915. Since 1926, however, the upward trend has set in in Tennessee also, for interest payments in 1928 amounted to $851,650 as compared with $600,235 in 1920 and $679,172 in 1915. With the further increase in debt during 1928 and 1929 total payments will run from $3,500,000 to $4,000,000 or more in 1930, five to six times greater than in 1920.

Summary

The main facts regarding Tennessee's debt may be summarized as follows:

(1) From 1900 to 1927 the state debt fluctuated within narrow limits, never rising above $16,000,000 nor falling below $11,000,00. New borrowing policies adopted in 1925 and 1927 increased the debt to approximately $80,000,000 on June 30, 1929. This includes $30,000,000 of county highway bonds assumed by the state.

(2) The legislature has authorized borrowing to the amount of more than $90,000,000 since 1915. The main purposes are as follows:

Highways	$81,500,000
Education	5,475,000
Charitable and Penal Institutions	880,000
	$87,855,000

(3) Until 1927 Tennessee's net per capita indebtedness was not excessive as compared with other states, for in that year nineteen states showed a per capita debt in excess of Tennessee's $6.96. However, 1929 figures will very likely show Tennessee among the highest half dozen states, with a per capita debt of about $32.00.

(4) There is danger that some of the sound principles that have been followed since 1915 may be overthrown:

a) Bridge tolls may become unpopular and be abolished.
b) Pressure to secure larger revenues for current expenses may result in repealing the clause providing that portions of the gasoline tax be used for debt purposes.
c) The short-term highway notes, which were originally intended to be repaid quickly from current revenues, will likely be converted into long-time obligations.

Any of these actions would tend to prolong the debt unduly, thus increasing its total cost, and throw a heavy burden on current revenues of the future.

CHAPTER V

THE TAXATION OF INTANGIBLES

When the present state constitution was adopted in 1870 the predominant source of state revenue was the general property tax. As first used in the United States, property taxes consisted of levies imposed against specifically enumerated forms of property, such as land, horses, carriages, etc. Gradually the list was extended and finally the nature of the tax was changed by making it apply to all types of property except certain designated classes, such as public buildings, church property, etc. This general or all-inclusive form reached its highest development in the United States about the middle of the 19th century, and it is quite natural, therefore, to find it embodied in the Tennessee constitution of 1870.

The exact phraseology authorizing the general property tax in Tennessee is as follows:

> *Section 28, Article II.*—"All property real, personal or mixed, shall be taxed, but the legislature may except such as may be held by the State, by counties, cities or towns, and used exclusively for public or corporation purposes, and such as may be held and used for purposes purely religious, charitable, scientific, literary or educational, and shall except one thousand dollars' worth of personal property in the hands of each taxpayer, and the direct product of the soil in the hands of the producer, and his immediate vendee. All property shall be taxed according to its value, that value to be ascertained in such manner as the legislature shall direct, so that taxes shall be equal and uniform throughout the State. No one species of property from which a tax may be collected shall be taxed higher than any other species of property of the same value, but the legislature shall have power to tax merchants, peddlers and privileges, in such manner as they may from time to time direct."

The theory underlying the general property tax, briefly stated, is that ownership of property indicates ability to pay, and that this ability varies directly with the value of the property. The further corollary, embodied in the so-called uniformity clause, is that property of equal value possesses equal ability, regardless of the particular type it happens to be. This requires that farm land, jewels, city residences, mortgages, stocks and bonds, automobiles, stocks of merchants, machinery, etc., be assessed at market value and taxed at the same rate.

In one respect at least this theory is false, for ability to pay depends on income rather than property, as many land owners in Europe have discovered since the war. Some property, such as jewelry, furniture, automobiles, etc., yields services rather than money income, and even when there is a money income the rate of return may vary from 3% to 10% of capital value. In some cases the difference may be between different units of property of the same kind. Of two farms valued at $10,000 each, one may yield a net income of $1,000, the other $500, simply because of differences in efficiency of management. More often, however, the difference reflects an actual difference in the type of property, such as stocks compared with bonds, or government bonds compared with industrials, in which case the degree of risk involved is the most important factor.

Another criticism is that the attempt to enforce a general tax on property leads to discrimination, since some forms are more able to escape. Jewels, stocks, bonds, notes, mortgages, etc., may readily be concealed, but land and buildings cannot. The result is that the burden falls largely on real estate, while most personal property escapes.

To meet these objections many states have adopted the "classified" property tax. Under this plan the uniformity rule is abandoned, and various classes of property are established with each class bearing a different burden. The scheme may be carried out in two ways: (1) All property may be assessed at a uniform percentage of value, with different rates applying to each class, land, for example, taxed $1.00 per $100 of assessed valuation, and bonds and notes at 50 cents; (2) The various classes of property may be assessed at different percentages of actual value, but to these assessments a uniform tax rate applied. Land, for example, might be assessed at 100% of actual value and bonds and notes at 50%, with a rate of $1.00 per $100 of assessed value applied to each. The results are the same in either case, in that differential burdens are placed on various classes of property; they differ only in the method of accomplishing the result. The first scheme is illustrated by the Virginia system used in 1925, and the second by the present Montana system. (See Table XXI and XXII).

The principle of classification might be extended almost indefinitely, with innumerable classes. In practice, however, this is seldom done. The greatest difficulties in applying the general property tax have to do with so-called intangible property, and the majority of states that have adopted classification have dealt only with intangibles. For this reason we may confine our attention to this phase of the problem.

The term "intangible property" is difficult to define. From one point of view property falls into the following groups.

Real estate

Personal property

- Tangible
- Intangible

TABLE XXI

THE CLASSIFICATION SYSTEM OF VIRGINIA, 1925[1]

Classes of Property	State Rates Per $100
Real estate	$ .25
Tangible personal property	.25
Intangibles	
Class 1—Bonds, notes, etc.	.35
Class 2—Capital	.85
Class 3—Principal of estates in fiduciary relation[a]	.80
Class 4—Money on deposit	.20
Class 5—Shares of stock	.80
Class 6—Bonds of Virginia subdivisions	.35
Bank stock	.25
Rolling stock of steam railroads	1.75

(1) Adapted from S. M. Leland: The Classified Property Tax, p. 236.
(a) Combined with Class 5 in 1922. **Tax Laws**, 1922, p. 44.

TABLE XXII

THE MONTANA CLASSIFICATION SYSTEM[1]

Class of Property	Assessments at Per Cent of True Value
Class 1. Net annual proceeds of mines and mining claims, less deductions allowed; mineral rights and reservations in land	100
Class 2. Household goods and furniture; agricultural tools, implements and machinery; motor vehicles; water craft; harness, saddlery and robes	20
Class 3. Live stock, poultry and agricultural products; stocks of merchandise; store furniture and fixtures	33⅓
Class 4. Real estate, improvements; manufacturing and mining machinery, fixtures and supplies	30
Class 5. Money and credits, including state and local government securities but excluding moneyed capital employed in banking business	7
Class 6. Shares of stock in National banks and moneyed capital employed in banking business*	40
Class 7. All other property	40

*Such moneyed capital to be ascertained by deducting from the moneys and credits of such banking corporations, association or individual, the amount of the deposits and any indebtedness representing money borrowed for use in said business, and the value of the shares of any national banking association, to be ascertained by deducting the value of all real estate of such association.
(1) Leland, op. cit., p. 242.

As usually understood, real estate consists of "immovables" such as land, buildings, railroad tracks, etc., while personalty is composed of "movables"—items that may and normally do follow the owner as he changes his residence or place of business. Personal property, in turn, falls into two groups, tangible and intangible. Tangible personalty consists of concrete, material items of wealth, such as pianos, clothing, livestock, machinery, etc. Intangibles, on the other hand, are usually not wealth at all in the real sense of the word, but merely a *claim* to wealth or income. As usually stated[1], intangibles may be representative, non-representative, or intermediate. Real estate mortgages, for example, are representative property since they are legal evidences of a claim against certain real estate. Non-representative intangibles, on the other hand "are property in their own right; they stand for income-earning capacity but do not symbolize wealth already taxed. Good will, franchises, royalties, patent rights, and government bonds, in large part, are typical of this class". The intermediate group "is composed of those intangibles which cannot, as a class, be treated as distinctly belonging to either of the two preceding classes. The most conspicuous illustration of this category is the common stock of corporations".

The main purpose of the classified property tax in modern times is to reduce the tax burden on intangibles. The arguments in favor of this discrimination are based either on justice or expediency. The justice argument is concerned mainly with intangibles referred to above as representative property. If the owner of real estate or chattels is taxed directly on his holdings, it is manifestly unjust, it is claimed, to tax the holder of the mortgage also. The issuance of the mortgage has created no additional wealth; it has merely split up the claims against existing real estate or chattels, and if the mortgage is taxed it means that mortgaged wealth is doubly burdened as contrasted with unmortgaged. As a result of the injustice, owners of intangibles quite naturally refuse to report them for taxation.

The expediency arguments emphasize the impossibility of taxing intangibles under the general property tax. Real estate and tangible personal property are usually assessed at only a fraction of their real value. Intangibles, on the other hand, if they are found at all, tend to be assessed at a much higher figure, since there is usually a par or face value to go by. When the rates of the general property tax, which often run as high as $3.50 to $4.00 per $100, are applied to these higher assessments they tend to confiscate a large part of the income. The owners, therefore, are under strong inducement to evade assessment if possible, and the way is made easy since intangibles can easily be concealed. For many types there are no public records of ownership. In the absence of special laws the assessor cannot examine bank records to determine the amount and ownership of individual deposits, while stocks, bonds, notes, mortgages, etc., may be locked up in a safe, or actually sent out of the state. The practical result is that the assess-

(1) See S. M. Leland, op. cit., 119. Also Jens Jensen: The Kansas Tax on Intangibles, p. 13-15.

ment of intangibles is insignificant as compared with tangibles, which means that by far the greater part of the tax burden is borne by real estate. In the words of the North Carolina Tax Commission of 1928, the tax on intangibles falls only on "the conscientious who do not try to escape, on the ignorant who do not know how to escape, on estates which cannot escape, and on certain corporations".[2]

Acceptance of the first argument means that "representative" intangibles should not be taxed because of the unjust double taxation that results; acceptance of the expediency argument means that the attempt to tax intangibles under the general property tax should be abandoned because it has failed and will always fail to reach them.

The classified property tax represents a compromise between these views. Complete exemption is seldom granted to any class of intangibles, except perhaps shares of stock in domestic corporations that are taxed on their property. Usually a flat rate, which may vary from thirty to fifty cents per $100 of assessed valuation, is applied to the various classes of intangibles. The advantages claimed for this system are as follows:

(1) While it is true that it does not eliminate double taxation, it does reduce it, and thus meets the injustice argument.

(2) It leads to a great increase in the amount of intangibles assessed:
   a) Most taxpayers do not object to reasonable taxation. When rates are low they will voluntarily report their holdings.
   b) Knowing that the rates are reasonable, tax officials become more active in enforcing the law, and are no longer reluctant to make assessments.

(3) There will be little or no decrease in revenues since the increased volume of assessments tends to offset the lowered rates.

(4) Even if there is no increase in receipts there is a decided gain in distribution of the tax burden. The number of taxpayers is greatly increased, and the burden no longer falls only on the ignorant and the honest.

(5) To the extent that there is an increase in revenues, the burden on real estate is lightened.

(6) The tendency of taxpayers to transfer their holdings or even to migrate to states with more lenient tax laws is checked. Investment within the state is encouraged thus building up more taxable wealth and income.

The actual effects of low-rate taxation of intangibles are very difficult to determine. Very often adoption of low rates is accompanied by changes in assessment methods, such as having assessments made by state instead of local officials, or by making the assessment "at the source" so that it is difficult to tell, in many cases, whether the increased

(2) Report of the Tax Commission, p. 344.

assessments are due to lowering the tax rate or to better methods of administration.

In Tennessee at the present time it is impossible not only to determine what percentage of intangibles is assessed but even to find the exact amount that is taxed. In publishing figures of assessed valuations, state officials do not segregate tangible and intangible personal property, but lump it all together as "personalty", thus including furniture, jewelry, machinery, farm implements, livestock, etc., along with the intangibles referred to above. Even when all these forms are included the total is surprisingly small. In 1927, for example, the total was $158,000,000 as compared with a real estate assessment of $1,274,000,000. The situation becomes almost ludicrous when we discover that bank deposits alone, which are supposed to be included in the assessment of personalty are more than twice as large[8] as the total assessment of all kinds of personalty.

The notorious underassessment that prevails in Tennessee is also indicated by comparison of per capita assessments. In Tennessee per capita assessments of personalty, including tangible as well as intangible property, amounted to $69.20 in 1926. For the same year Prof. S. M. Leland found that in Kentucky per capita assessments of intangibles alone amounted to $382.83, in Maryland, to $290.99, and in Virginia, $265.75. This difference is far too great to be accounted for by actual differences in prosperity between the various states; a large part of it must unquestionably be attributed to greater effectiveness of assessment that prevails in Kentucky, Maryland, and Virginia under their schemes of low-rate taxation.

Low per capita assessments of personalty, particularly intangibles, are not peculiar to Tennessee; they are typical, however, of states that attempt to tax personalty under the general property tax. In the study already referred to, Professor Leland found that in nine states using general property rates per capita assessments of intangibles in 1926 varied from $9.32 to $91.12, with the majority falling below $40.00. In eleven states using low rates, per capita assessments varied from $90.76 to $850.28, in six states being in excess of $200.00.

Investigation also shows that assessment of intangibles in states having a low-rate tax almost invariably increases at a faster rate than in states which tax them under the high rates applied to general property. The following table shows how the assessment of intangibles has grown in various states having low-rate taxes as compared with the increase in assessment of personalty in Tennessee, which still uses the general property rates.

In view of these experiences in other states it is probable that assessment of intangibles in Tennessee could be increased greatly by lowering the rates and placing administration in the hands of state rather

(8) As of June 30, 1927, "individual deposits" in all banks of Tennessee reporting to the Comptroller of the Currency amounted to $385,078,000. Annual Report of the Secretary of the Treasury on the state of the finances, 1927.

TABLE XXIII

ASSESSMENT OF PERSONALTY IN TENNESSEE COMPARED WITH ASSESSMENTS OF INTANGIBLES IN MINNESOTA, KENTUCKY, AND VIRGINIA, IN MILLIONS[1]

Year	Minnesota[2]	Tennessee[5]	Virginia[3]	Tennessee[5]	Kentucky[3]	Tennessee[5]
1910	$13,919[4]	$ 78,298				
1914			$131,317[4]	$ 86,837		
1916					$68,750[4]	$ 88,948
1926	$414,072	$170,111	$435,699	$170,111	$457,796	$170,111
Increase of 1926 over first year given	2,874.86%	117.2%	230.3%	95.9%	565.9%	91.2%

(1) Figures for Tennessee are taken from "Biennial Report of Comptroller of the Treasury" and from "Condensed Financial Statement, 1928". For other states, from S. E. Leland: "The Classified Property Tax in the United States", p. 262.
(2) Figures are for money and credits only.
(3) Does not include money on deposit or bank stock.
(4) Assessment under general property tax.
(5) Includes both tangible and intangible personalty.

than local officials. At present such a policy is prohibited by the Constitution which requires that "taxes shall be equal and uniform throughout the state" and that—"no one species of property—shall be taxed higher than any other species of property of the same value".

Until 1929 it seemed that the only method of overcoming these restrictions was revision or amendment of the constitution, but in that year the legislature passed the Hall income tax bill[4] which imposed a tax of 5% on the income from certain stocks and bonds not taxed ad valorem. Authorization for the tax was found in Article 2, Section 28, of the Constitution which provides that "The legislature shall have power to levy a tax upon income derived from stocks and bonds that are not taxed ad valorem". The fact that the act was upheld by a decision of the Supreme Court rendered on July 19, 1929, destroys much of the argument in favor of amendment of the Constitution to permit classification, for the term "bonds" has been given such a broad meaning that it includes much of the property that is usually dealt with under the classified property tax.

If it is desired to tax tangible personalty, such as livestock, machinery, furniture, etc., at low rates, or if the income tax should prove unworkable, permission to classify property becomes desirable; otherwise it is not.

(4) Ch. 86, and Ch. 116, Public Acts of 1929.

In case low rate taxes are adopted, certain principles should be followed. These have been summed up by Professor Williamson[5] as follows:

(1) Administration should be placed in the hands of the state, for in this way "assessment would be lifted up out of local political influences and given to more competent authorities."

(2) If local assessment is used it should be supervised by full-time state officials or commissions with power to appoint and remove local assessors.

(3) If assessment is made locally, local governments should be given a share of the proceeds of the tax.

(4) Wherever possible, the tax should be collected "at the source", for "it is easier to reach intangibles in this way than to seek out their individual owners".

(5) "Wherever collection at the source is not feasible, "information at the source" should be required", banks required to report depositors, corporations to report owners of shares, etc.

CHAPTER VI

NEW SOURCES OF REVENUE FOR TENNESSEE

State expenditures of Tennessee are increasing much more rapidly than taxes. As shown in Table XXIV, receipts from taxation during the past three years have remained almost stationary around $17,500,000 while total expenditures have risen from $24,000,000 to $35,000,000. Part of this difference is made up from fees and from receipts from the Federal government, but by far the greater part represents funds borrowed by the state, either directly by issuance of its own notes and bonds, or indirectly by the device of county aid for highways which led finally to state assumption of county highway bonds.

TABLE XXIV

	Receipts from Taxes	Total State Expenditures
1926	$17,381,235	$23,969,819
1927	17,170,803	26,185,582
1928	17,955,930	35,126,451

This trend cannot continue indefinitely without threatening the solvency of the state. Borrowing is not a permanent substitute for taxation, but merely a device for postponing it. Sooner or later borrowed funds must be repaid, and the only practical source is taxation. The problem, therefore, that confronts taxpayers and government officials alike is this—how shall the necessary taxes be secured?

This problem was becoming acute even before 1928, but has been complicated since then by two factors: first, the proposal to eliminate the state tax on property; second, the fact that the legislature of 1929

(5) Proceedings of National Tax Association, Vol. 18, 1925. The present status of low rate taxation of intangible property, pp. 126-7.

made appropriations considerably in excess of estimated receipts for the biennium.

Much can be said in favor of eliminating the general property tax for state purposes. One of its chief defects is that it tends to degenerate into a tax on real estate thru failure to reach either tangible or intangible personal property. For administrative and legal reasons, however, it is about the only feasible source of revenue for cities and counties. The state, because of its greater jurisdiction, has a much wider choice of revenue sources, while the possibility of employing a better trained personnel makes for more efficient administration. In general, therefore, the surrender of the tax on property would not cripple state finances and at the same time would tend to strengthen the finances of local units by giving them the entire revenue from property taxes.

At this particular time, however, such a policy might work serious hardship. As noted above, state receipts from taxation have grown very slowly during the past three years, increasing only 3.2% from 1926 to 1928, while total state expenditures have increased 46.5%. The upward trend has not yet been checked. The legislature made extensive appropriations in 1929 but failed to provide increased revenues so that the state faces an estimated deficit of $4,000,000 in the general fund for the biennium ending June 30, 1931[1]. During the year ending June 30, 1928, the state property tax of 20 cents per $100 of assessed valuation yielded about $3,400,000, or approximately 19% of total state receipts from taxes. Because of its importance, therefore, it would seem unwise to abandon this source until expenditures and receipts have again been balanced and until the revenue possibilities of the substituted sources have been tested fully.

Even if the property tax is retained and even if a special session of the legislature should reduce appropriations for the present biennium, larger revenues appear inevitable. The general trend of government expenditures in all units is upward, and Tennessee is no exception. No matter what measure of effectiveness is used, Tennessee's school system as a whole is considerably below the average for all states[2], and will require more money. Great strides have been made in developing public health service, but this work as yet is in its infancy. With the discovery of improved methods of treatment of the delinquent and defective classes in our prisons and hospitals and with the continual transfer of responsibility from county and city to the state we can expect a continued increase in expenditure for this purpose. About the only item in state expenditures that shows promise of declining is that of confederate pensions.

How shall the necessary revenues be provided? A proper answer would require a thorough study of the revenue systems of other states, followed by an analysis of conditions in Tennessee to determine whether any of the taxes used with success elsewhere might be used to ad-

(1) Statement of Gov. Henry Horton at State Tax Conference, Hotel Patten, Chattanooga, Oct. 8, 1928.

vantage here. In the absence of such a study some of the more obvious facts may be presented.

The following list shows some taxes used in other states that are not used in Tennessee:

1. Taxes on personal income. Now used in 12 states, with total receipts in 1926 approaching $87,000,000.

2. Severance taxes—based on the annual production of natural resources such as coal, iron, oil, timber, etc. Now used 10 or 12 states.

3. General sales tax. Now used in only one state, West Va.

4. Special sales or stamp taxes. Now used in Tennessee on tobacco, gasoline, malt and carbonic gas. In South Carolina, is now used on soft drinks, ammunition, candy, playing cards, tobacco and documents (bonds, etc.,) Tax on tobacco used in 12 or more states.

5. Tax on gross receipts of corporations, especially public utilities. Used as the sole tax on certain corporations in approximately 12 states and in conjunction with the property tax in 15 or 20 more.

6. Special tax on motor vehicle common carriers—bus and truck lines. Based on gross receipts in seven states, on mileage travelled in nine states.

The Personal Income Tax

When a state begins searching for new sources of revenue the personal income tax is usually one of the first suggested. As contrasted with the property tax it has many advantages. Under the property tax, only those who own property, especially real estate or tangible personal property, contribute anything to the upkeep of government.

But there is a rapidly growing army of wage-earners, salaried people and those engaged in the professions, who derive large incomes from personal services, live in rented apartments and own little property except stocks or bonds which easily escape taxation. The chief merit of the personal income tax is that it permits a reduction in taxes on property and redistributes the burden on those best able to bear it.

By the use of exemptions for children or dependents and the deduction of certain necessary expenses, it can be adjusted very accurately to ability to pay. Graduated or progressive rates are nearly always used to secure equal burdens on large and small incomes. Since it is based on net income, it follows that there is no tax except in successful years, whereas the property tax is payable even when business shows a loss.

It is sometimes said that the income tax is undesirable since receipts fluctuate so widely between good and bad business years, thus handicapping governmental activities. Experience, however, shows that this is true only in years of extreme depression, such as 1920 or 1921.

Is the income tax suited to Tennessee? Or is it fitted only for urban and industrial states?

North Carolina, with a population of 2,877,000 in 1927 of which 80.8% in 1920 was rural, derived $2,345,734 from taxes on personal in-

(2) See Bulletin No. 39, 1927. United States Bureau of Education.

come in 1928. Mississippi, with a population of 1,790,618 in 1920, of which 86.6% was rural, derived $1,789,189 in 1926, South Carolina, with a population of 1,845,000 (in 1927) with 82.5% living in rural sections in 1920, collected $343,482 from individuals in 1927, and $1,418,713 from corporations. In 1920, 73.9% of Tennessee's population was rural, and in 1927, the total population was 2,476,000.

Severance Taxes

Some ten or twelve states are using "severance" taxes on the production of natural resources. Pennsylvania, for example, is deriving about $4,000,000 annually from a tax of 1½% on the market value of anthracite coal when mined and ready for market. Minnesota secures more than $2,000,000 from a tax of 6% on the value of iron ore, and about $800,000 more from a tax of 6% on royalties.

Oklahoma derives about $10,000,000 from a tax of 3% on crude oil and one-half of one percent on mineral products. Arkansas taxes coal, manganese ore and timber; Louisiana taxes oil, gas, timber and natural deposits; Montana taxes crude oil, cement, coal, metals, etc. These taxes are usually in addition to the customary taxes on property, incomes, etc.

Severance taxes are usually justified on the grounds that oil, minerals, etc., are gifts of nature, rather than products of individual efforts, and as such should be used for the benefit of society as a whole. Furthermore, as they cannot be replaced, a special tax tends to retard usage, prevent waste and conserve the supply.

Against these arguments it is urged that as far as the individual producer is concerned, these materials are just as much products of man's efforts as manufactured articles. Discovery and location of deposits entails great expense and risk; actual mining or production results in heavy costs, and for these the ambitious and enterprising producer should be allowed a return. It is claimed also that special taxation harms society, since it raises the price of materials and prohibits the development of valuable industries.

There are a number of natural resources in Tennessee that might be subjected to such special taxation, the most important being lumber and marble.

The Sales Tax

Perhaps the most widely discussed tax in Tennessee in recent years is the general sales or turnover tax, which was reviewed but not enacted by the 1929 legislature. As contrasted with special sales or excise taxes, the general sales tax is a levy of a certain percentage against sales of all descriptions. Pressure for funds during and immediately after the war led to its adoption in many foreign countries and it was very strenuously advocated in the United States by some groups during 1919-1921 as a substitute for the excess profits and high income taxes that prevailed then, but it was not adopted.

It has been used in the Phillippine Islands for a number of years and in a modified form in some Canadian provinces, but in the

United States is found only in West Virginia. There it consists of a rather complicated system of at least 10 different rates varying from 1-20 of one percent on wholesale business to one and 17-20% on natural gas. Sometimes the tax is based on the value of articles produced as shown by gross proceeds of sale which applies to oil, coal, gas, etc., and sometimes to gross income as in the wholesale business.

Total returns from the tax amounted to $4,076,000 in 1927, and to $3,805,000 in 1928, of which more than $1,000,000 came from the coal business.

In favor of the sales tax it is said that it is not burdensome since the tax constitutes only a slight addition to price. It also meets the test of convenience since actual payment is distributed throughout the year, and made only when goods are purchased. Those who favor it believe that it accords with ability to pay since those with larger incomes spend more and therefore pay more taxes, but at the same time it falls on everyone and secures some revenue from many who would escape either a property or an income tax.

Advocates of the general sales tax usually assume that it is shifted from the merchant or producer to the consumer in the form of higher prices and this is considered as an advantage, the real purpose being to tax the consumer. Economists, however, point out that shifting depends upon the intensity of demand and elasticity of supply, and both of these vary with different goods. As a result, sometimes the tax will be paid by the merchant or producer and sometimes by the consumer.

If it is shifted, its opponents say that it results in very uneven burdens and falls most heavily upon those least able to bear it. The poor man receiving an income of $1,000 must spend it all for the necessities of life and is taxed on every dollar he earns, while the man getting $10,000 and able to pay at a much higher rate, is benefited in two ways: he pays exactly the same rate as the poor man; he spends only a part of his total income, diverting the remainder to investments, insurance, etc., and on this is not taxed.

If it is not shifted, it may result in discrimination between competitive merchants and producers. Gross sales or gross income take no account of operating expenses. Two competitors may each have $20,000 gross sales and be taxed the same. Yet, after expenses are deducted, one may have a net income of $5,000, while the other has a loss.

There is also a chance of discrimination between different types of business because of different rates of turnover. Jewelry stores have an annual turnover of less than one; department stores have from 2½ to 3½ and retail groceries about 10. Does a tax of the same rate on gross sales mean an equal burden on all three?

The general sales tax also discriminates in favor of the highly integrated business, that is, the business in which several stages of production are combined under one management. In this case, only one tax is due—when the goods are finally sold. When no integration exists, a mining company for example, is taxed on the sale of the ore, the

company that works it up into partly finished materials is taxed again on the same materials and the company making tools and machinery from this material is taxed once more. What began as very light tax may become, through this process of pyramiding, a very grievous burden. Since the company controlling several stages of production is taxed only once—on the final sale to consumers, there is a decided advantage in combination, particularly if the tax is very high.

Familiarity with a tax and an understanding of how it works are among the factors which make for its success. At present the income tax possesses these characteristics to an unusual degree. Filing returns for the Federal income tax has familiarized many individuals with its operation, while corporations, since 1923, have had additional opportunity to become acquainted with the principle because of the state excise of 3% on net income. The Hall income tax on stocks and bonds will subject still others to such a levy. In view of these facts, adoption of a general income tax would not constitute a very radical departure, and would be but an extension of a policy already adopted.

Perhaps the general feeling at present is that a general tax on individual income would be unconstitutional. The question has not been passed on by the Courts, but it might be held that it is authorized by Section 28, Article II, which states that "the legislature shall have power to tax merchants, peddlers, and privileges in such manner as they may from time to time direct".

APPENDIX

A—The Tennessee State Tax System as of July 1, 1928.

B—Property Taxes Levied For State Purposes, 1916-1928.

C—The Trend in State Indebtedness, 1900-1929.

D—Mortgage Registry Taxes.

E—Low-Rate Taxation of Bank Deposits.

F—Low-Rate Taxes on Intangibles.

G—Summary of Taxation of Intangibles in Fifteen States Now Using Special or Low Rates.

Sec. 756 a 1-756 a 72, ch. 2	In
Sec. 3079a 194bl-3079a 194b20, ch. 16, Title 12	R of
Sec. 3431a 10	Coa spe

1. Legal citation plement of 19
2. Growing crop the soil of th vendee and r in the hands
3. For fiscal ye total rate lev of property. ing 20 cents tax for publi other special
4. If unpaid sh per month.
5. Sometimes b capacity (aut
6. County or m lature for st (a) Privilege express, news

APPENDIX A

THE TENNESSEE STATE TAX SYSTEM AS OF JULY 1, 1928

Legal Citation[1]	Title of Tax	Payment A—Annual S—Single	Basis of Tax	Measure of Tax	Rate of Tax	Administration of Tax			Disposition		Day of taxable status or period covered by report on which tax is based	Date return or information is due	Date tax is due
						Assessment	Levy	Collection	State	Local			
Articles III-IV, inc., Ch. I, Title 5	General Property[2]	A	All property, real personal and mixed	Value of property	State rate determined biennially by legislature; local rates annually; limited by legislature[3]	Public utilities, by railroad and public utilities commissions; corporations in general by Commissioner of Finance and Taxation; other property, by county or municipal Assessors	State, by Legislature; county, by county courts; others by local legislative bodies	State taxes on public utilities by State Comptroller; state and local taxes on property of merchants by county court clerks; both state and local taxes on other property, by county trustees	Part.	Part.	Jan. 10	Public utilities, on or before April 1.	Oct. 1. Delinquent after March 1.[4]
Articles VII-VIII, Ch. I, and Secs. 710-723, inc., Ch. II, Title 5	Privilege	A	Privilege of engaging in specified vocations, occupations, and businesses.	Usually, population of town or district in which business is located[5]	Varies with each vocation or occupation; usually determined biennially	By county or municipal assessor.	State, by Legislature; county and municipality, by respective legislative bodies[6]	By county clerks (6a)	Part.	Part.	At end of year of operation	At end of year of operation	At end of year of operation
Sec. 713, Ch. II	Insurance Companies and Agent's Tax[7]	A	Privilege of doing business	Gross Premiums paid by or for policy holders in the state, or on property in the state	2½%	Commissioner of Insurance and Banking	State	Commissioner of Insurance and Banking	All		Calendar year	Jan. 1	Jan. 1[8]
Sec. 720-721, ch. 2	Corporation charter	S	Organization of stock corporation	Authorized capital stock	1/10 of 1%	Secretary of State	State Legislature	Secretary of State	All		Date of incorporation or increase of stock	Prior to incorporation, or increase of stock.	Date of incorporation or increase of stock.
Sec. 720-721, ch. 2	Privilege tax, foreign corporation	S	Privilege of entering state to do business	Authorized capital stock	$50 to $1500[9]	Secretary of State	State Legislature	Secretary of State	All		As of entry into state to do business	Prior to doing business in the state.	On filing of required report.
Sec. 717-719, ch. 2	Building and Loan Association Tax	A	Privilege of doing business	Capital paid in by citizens of Tennessee	$20 to $843.50, plus $92.50 for each additional $100,000 over $500,000	Commissioner of Insurance and Banking	State Legislature	Commissioner of Insurance and Banking	All		Year ending June 30	On or before Sept. 1.	On or before Sept. 1
Sec. 723 a14-723 a23, ch. 2	Corporation Excise	A	Privilege of doing business within the state in a corporate or joint stock capacity[9]	Net earnings from business done wholly within Tennessee.	3%	Department of Finance and Taxation	State Legislature	Paid to Comptroller; supervision by Dept. of Finance and Taxation	All		Same period as that covered by report of net income to the Collector of Internal Revenue	May 1	July 1
Sec. 723 a24-723 a41, ch. 2	Gasoline Tax	Monthly	Privilege of distributing gasoline.	Each gallon of gasoline sold or distributed in the state.	3 cents per gallon	Department of Finance and Taxation	State Legislature	Paid to Comptroller; supervision by Dept. of Finance and Taxation	All[10]		Preceding month	Twentieth of each month	Twentieth of each month
Ch. 2, Public Acts, 1925 (11)	Tobacco Tax	As stamps are needed	Privilege	Intended sales price of cigars cigarettes, mfed. tobacco and snuff	10%	Department of Finance and Taxation	State Legislature	Department of Finance and Taxation.	All[12]		See last column	See last column	Payment made by purchase of stamps, as needed.
Sec. 756 a 1-756 a 72, ch. 2	Inheritance Tax	S	Transfer by will, intestate law, or in contemplation of death from resident decedent; transfer by will, intestate law, or in contemplation of death, from non-resident decedent of property within the state, except certain intangibles	Appraised value of property, less deductions	Direct heirs, 1% to 5%; collateral, 5% to 10%[13]	County Court Clerks,[14] with supervision by Department of Finance and Taxation.	State Legislature	County Court Clerks	State		Date of transfer	Unless litigation prevents, county court clerk must make appraisal within 90 days of the transfer.	Date of transfer[15]
Sec. 3079a 194bl-3079a 194b20, ch. 16, Title 12	Registration of automobiles	A	Operation of motor vehicles on public thoroughfares in the state	Automobiles and motor cycles-rated horsepower; motor trucks, rated horsepower, plus ton carrying capacity.	30c 30c plus $3 for each ton carrying capacity	County Court Clerks, under supervision of Department of Finance and Taxation.	State Legislature	County	State[16]	[16]	Date of license	Date of license	Jan. 1
Sec. 3481a 10	Coal Oil inspection fees	S	Inspection of illuminating oils to determine flashing temperature	Each barrel, or smaller package of oil inspected	25 cents a barrel; 10 cents for each smaller package (17)	Coal oil inspectors appointed for each city or county by the Governor	State Legislature	By coal oil inspectors, who make payment to state comptroller.	State		Date of inspection		

1. Legal citations are to Shannon's Annotated Code of Tennessee Supplement of 1926. (1917 Edition, and supplement of 1926).
2. Growing crops of whatever nature or kind, the direct product of the soil of this state, in the hands of the producer or his immediate vendee and manufactured articles from the produce of this state in the hands of the manufacturer are exempt.
3. For fiscal year ending June 30, 1927, and each year thereafter the total rate levied by the legislature is twenty cents per $100 worth of property. County courts are authorized to levy rates not exceeding 20 cents per $100 for county purposes, which is exclusive of tax for public roads, pikes, schools, interest on county debts and other special purposes.
4. If unpaid shall bear interest after March 1, plus penalty of 1% per month.
5. Sometimes based on amount of business done (contractors), or capacity (automobile busses, movie theaters, etc).
6. County or municipal rates must not exceed rates levied by legislature for state purposes.
   (a) Privilege taxes for state purposes only are imposed against express, news, railroad terminal, sewing machine, sleeping car, telegraph and telephone companies, and paid directly to State Comptroller. Basis and rate of tax vary for each type of company.
7. Applies to all foreign insurance companies and to all fidelity and surety companies.
8. $50 if authorized capital stock is $50,000 and less, graduated to $1500 if in excess of $5,000,000.
9. A number of other "privilege" taxes or fees are allowed as a credit against the corporation excise, including filing fees paid by corporations, examination fees, by banks, 2½ gross premiums tax, by insurance companies, "fire prevention" tax on net premiums, etc.
10. Funds to be used solely in construction and maintenance of the state highway system. Beginning July 1, 1928, one cent per gallon set aside for interest and sinking funds for county highway bonds assumed by the state.
11. Not codified since original enactment was for two years only.
12. Entire amount to be devoted to educational purposes. $800,000 annually to rural elementary schools; $200,000 annually to high schools; the remainder to amortize building funds for (a) rural school houses, (b) the state university.
13. Exemption of $10,000 allowed to direct heirs; $1,000, to collateral. Rates on direct heirs graduated from 1% on amounts from $10,000 to $25,000 to 5% on $500,000 and over; on collateral heirs, from 5% on amounts from $1,000 to $50,000 to 10% on $250,000 and over.
14. Either Commissioner of Finance and Taxation or administrator or executor of estate may call for appointment of appraisal committee if dissatisfied with appraisal made by county clerk.
15. "When any such person (heir) becomes beneficially interested in possession".
16. 10% of the amount collected may be used for maintenance of the highway department, and to meet cost of collecting registration fees. The remainder to be expended for maintenance of state highways in the county from which collected, under supervision of state highway department in co-operation with county road authorities.
17. Wholesalers are required to pay a special privilege tax of one-half of one cent per gallon on uninspected coal oil, kerosene and other illuminating oils.

Appendix B

Property Taxes Levied For State Purposes, 1916-1928[1]

1916	$2,390,259[2]
1917	3,484,528
1918	3,633,475
1919	4,071,150
1920	5,130,957
1921	6,045,510
1922	6,230,981
1923	4,934,976[3]
1924	4,969,557
1925	4,231,909
1926	4,310,895
1927	3,433,893
1928	3,490,506

(1) Includes taxes levied on real estate, personalty, and property of railroads and public utilities.
(2) Figures from 1916 to 1922, inclusive, taken from First Biennial Report of the Tax Commissioner, pp. 312-313.
(3) Figures for 1923 to 1928, inclusive, computed from data given in Condensed Financial Statement, 1928. Taxes levied determined by application of tax rates to the assessed valuation of all property.

Appendix C

The Trend in State Indebtedness, 1900-1929

Dec. 19, 1900	$16,288,100[1]
Dec. 19, 1902	15,346,300
Dec. 19, 1904	14,738,800
Dec. 19, 1906	13,571,600
Dec. 19, 1908	12,125,900
Dec. 19, 1910	11,458,000
Dec. 19, 1912	11,458,000
Dec. 19, 1914	11,417,000
Dec. 19, 1916	12,417,000
Dec. 19, 1918	14,477,000
June 30, 1920	14,477,000
June 30, 1922	15,843,000[2]
June 30, 1923	15,873,000
June 30, 1924	14,703,000
June 30, 1925	14,498,000
June 30, 1926	15,364,000
June 30, 1927	16,572,000
June 30, 1928	25,481,000
June 30, 1929	83,683,304

(1) Figures for 1900 to 1920, inclusive, are taken from Biennial Reports of the Comptroller of the Treasury and include only the interest-bearing debt.
(2) 1922-1929, from Condensed Financial Statements, 1927 and 1928. As originally given, only the bonded debt was stated. I have added the amount of short-term highway notes outstanding at the close of each fiscal year.

1926	$ 500,000	1928	$ 6,000,000
1927	1,500,000	1929	24,700,000

Appendix D

Mortgage Registry Taxes

Source: S. E. Leland, *The Classified Property Tax in the United States.* p. 195.

State	Date of Adoption	Rate
Alabama	1903	$ .15 on each $100
Kansas	1925*	.25 on each $100
Kentucky	1917	.20 on each $100
Michigan	1911	.50 on each $100
Minnesota	1907	.15 on each $100 when mortgage runs for 5 years or less; $ .25 when mortgages run for over 5 years.
New York	1906	.50 on each $100
Oklahoma	1913	.10 on each $100 on mortgages running 5 years or more; tax decreases with decrease in period to $ .02 per $100 if mortgage is for less than 2 years.
Tennessee	1917	.10 on each $100 on loans in excess of $1,000.
Virginia	1910	.10 on each $100

(*) In 1927 alternative stamp tax on secured debts registered with State Treasurer was adopted; rate one-tenth of one per cent.

Appendix E

Low-Rate Taxation of Bank Deposits

Source: S. E. Leland, *The Classified Property Tax in the United States*, p. 217.

State	Date of Law	Whether Special Tax or Part of Classification Plan	Deposits Taxed	Rate per $100	Assessable to Bank or to Individual Taxpayer
Connecticut	1852	Special	Savings	$ .25	Bank
Dist. of Columbia	1916	Class.	Savings over	.50	Individual
Iowa	1911	Class.	$500	.60	Individual
Kansas	1925	Class.	All money	.50	Individual
Kentucky	1917	Class.	All money	.10	Bank
Maine	1872	Special	All bank deposit	.50	Bank
Maryland	1888	Special	Savings[5]	.25	Bank
Massachusetts	1862	Special	Savings	.50	Bank
Minnesota	1910	Class.	Savings[2]	.30	Individual
Montana	1919	Class.	All money	(1)	Individual
Nebraska	1921	Class.	All money	.25	Individual
New Hampshire	1864	Special	All money	.50[3]	Bank
New Jersey	1888	Special	Savings	.50	Bank
Oklahoma	1925	Class.	Savings[2]	.10	Individual
Pennsylvania	1879	Class.	All money	.40	Individual
Rhode Island	1860	Class.	All money[4]	.40	Deposits to bank; all other to taxpayers
South Dakota	1919	Class.	All money	.40	Individual
Vermont	1878	Special	Deposits and accumulations	.70	Banks
Virginia	1914	Class.	All money	.20	Individual

(1) Assessed at 7 per cent.
(2) Less certain deductions.
(3) Laws of 1925 provided for gradual reduction of rate. Rate to be $.50 after 1931.
(4) At first applied to deposits and reserves (Williamson, loc. cit., p. 48); later to savings deposits, Acts and Resolves, Rhode Island, 1893, ch. 1215; cf. General Laws, Rhode Island, 1896, ch. 29; ibid., 1909, ch. 39; ibid., 1923, ch. 37. Since 1912, 4-mill rate has applied to all money. Cf. General Laws, 1923, ch. 59, sec. II, p. 307.
(5) Average deposits, reserve funds and undivided profits less certain deductions.

Appendix F

Low-Rate Taxes on Intangibles

Source: S. E. Leland, *The Classified Property Tax in the United States,* p. 180.

State	Date of Adoption	Rate in Force	Type of Evaluation
California	1925	1.45 per cent	Annual[5]
Connecticut	1889	4 mills	Registration
Dist. of Columbia	1916	5 mills	Annual
Iowa	1911	6 mills	Annual
Kansas	1925	5 mills[6]	Annual[3]
Kentucky	1917	5 mills[1]	Annual[3]
Maryland	1896	4½ mills	Annual
Minnesota	1911	3 mills	Annual[3]
Montana	1919	Assessed at 7 per cent true value	Annual
Nebraska	1921	5 mills[4]	Annual
Oklahoma	1917	Registration at 2 per cent of face value for 5 years	Registration[3]
Pennsylvania	1879	4 mills	Annual
Rhode Island	1912	4 mills	Annual
South Dakota	1919	4 mills	Annual[3]
Vermont	1925	4 mills[2]	Annual
Virginia	1915	6 classes of intangibles. Rates vary from 2 mills to 11.0 plus mills.	Annual[3]

(1) Bank deposits 1 mill.
(2) Intangibles assessed at 1 per cent of value; taxed at 40 cents on the dollar. Bank stock and competing capital taxed at 2 per cent.
(3) Also has a mortgage recording tax.
(4) Money in bank and elsewhere 2½ mills; bank stock 70 per cent local tangible property rate.
(5) Seven per cent assessment law repealed 1927.
(6) Bonds of other states and foreign governments taxable at 1 mill.
(7) Money and credit tax of one-tenth of 1 per cent adopted 1925; intangibles subjected to special levy of one-fifth of 1 per cent in 1927.

Appendix G

Summary of Taxation of Intangibles in Fifteen States Now Using Special or Low Rates, Showing:

1) What is included under intangibles.
2) Rate of Tax.
3) Disposition of Proceeds.
4) By whom the tax is administered.
5) Comments on success of the low rates by tax officials or students.

Sources of Information:

1) Simon E. Leland — The Classified Property Tax in the United States. (1928)
2) K. M. Williamson — The Present Status of Low Rate Taxation of Intangible Property, Proceedings of National Tax Association, Vol. 18, pp. 90-128 (1925)
3) Beulah Bailey — Review of Tax Legislation for 1927 Proceedings of National Tax Association, Vol. 20, pp. 28-61

Information is complete through 1927.

TAXATION OF INTANGIBLES

What is included	Rate of Tax	Disposition of Proceeds	Administration	Comments
Connecticut				
Bonds, notes other choses in action. Mortgages, only the amount in excess of the assessed value of the real property All cash on hand and money on deposit, with one exception, is exempt (Bailey, 1927)	4 mills (2 mills from 1889 to 1897)	State gets all	Tax is paid to state treasurer when the security is registered with him. If not registered may be taxed at local rates in district where found. Penalty of 2% per year for 5 years imposed on all property found in an estate which has escaped taxation	1) Low rate was fostered by bond dealers in order to improve bond market in the state. 2) For ten years, revenue from low rate was less than that from the old general property rate. 3) Prof. Fairchild (1919): less than half of the intangibles are listed.
Iowa				
Notes, mortgages, bonds, and other written evidences of credit, money on hand and in banks, checks, drafts, contracts for labor, judgments, annuities, and shares of stock of corporations not otherwise taxed.	5 mills, plus 1 mill special for retirement of soldiers' bonus bonds to continue until 1942	Divided among various jurisdictions on the same pro rata basis as other taxes collected in each district	Almost entirely in hands of local officials	1) Prof. Brindley, less than half of the intangible property in the state is placed on the rolls. 2) Doubtful if present assessments yield as much revenue as was secured under the old general property rates. 3) Deduction of indebtedness should not be allowed.

What is included	Rate of Tax	Disposition of Proceeds	Administration	Comments
KANSAS				
a) Mortgages b) Bonds of other states and foreign govts. c) Money, bonds of corporations, except those secured by real estate mortgages recorded in the state, shares of corporations which do not have principal office in the state, shares of building and loan associations notes and accounts receivable, annuities, royalties, contracts, copyrights, and other claims.	25 cents per $100 (2½ mills) 1 mill on the dollar 5 mills on the dollar of fair value	1/6 to the state. 1/6 to the county, 1/3 to school district, 1/3 to city or township	Assessment by local officials, under supervision of public service commission	1) Law permits deduction of debts, which will reduce assessments 2) Personal exemption of $200 is also permitted. 3) Tax does not apply to shares of banks, and domestic corporations taxed in other ways, nor to intangibles owned by merchants, manufacturers and corporations because such businesses are taxed in other ways. 4) Assessments under the low rates (1925 and 1926) 25% to 30% greater than under the old.
d) Secured debts of any state, foreign govt. or political subdivision, running more than a year.	1/10 of 1% on face value, and 1/10 of 1% additional if debt is registered (1 mill, and 1 mill additional)	Registration fee to the state, 1/2 of the stamp tax to county	State Treasurer	
KENTUCKY				
1) Bank deposits 2) Money on hand, notes, bonds not issued by U. S. or local govts. of Kentucky, accounts, credits of all kinds, shares of stock of corporations except those that have 3/4 or more of their property located in the state. 3) Mortgages, (five years duration or more)	1 mill 50 cents per $100 (5 mills per dollar)	State State	By state officials assessed against and collected from the bonds Local assessment, supervised by tax commission	1) Assessments increased almost 3,000% from 1917 to 1925. But not until 1924 did the yield exceed the yield of the general property rates formerly in existence. 2) Not until 1925 was the yield from the low rate in excess of the former general property tax yield Assessments not as complete as they should be, because Tax Commission does not have full power over local assessors. Little cooperation, because localities do not share in proceeds.
MARYLAND				
a) Bonds and certificates of indebtedness of domestic and foreign corporations, shares of stock of foreign corporations, bonds of other states or their political subdivisions	45 cents on the $100 (4½ mills)	15 cents for state purposes, 30 for local	Assessment by local officials under supervision of state Tax Commission	1) Really a tax on stocks and bonds. Many intangibles not included—money on hand, book accounts, commercial paper 2) Very satisfactory results in Baltimore. Many railroad corporations, holding outside securities
b) Savings deposits	1/4 of 1% (2½ mills)	3/4 to localities, 1/4 to state		Very successful. Large yield, and assessments
c) Bank shares	1% (10 mills)	Localities		thought to be complete.
d) Mortgages Taxed locally, in one county only				

3 0112 042801826

What is included	Rate of Tax	Disposition of Proceeds	Administration	Comments
		MINNESOTA		
a) Money on hand or deposit, annuities, every claim of any kind, shares of stock of corporations whose property is not assessed in the state	3 mills	1/6 state, 1/6 county, 1/3 city or village, 1/3 school district	Assessment by local officials, under supervision of State Tax Commission	1) In second year after adoption of low rate the yield exceeded that of the old rate and increased steadily until 1920. Assessments increased 9 fold first year. 2) In 1922 Lord, of State Tax Commission, estimated only 45% to 50% of property was being reached. 3) Number of persons being reached is much larger than under old rates. 4) No offset for debt is allowable
Shares of joint stock land banks	5 mills			
Mortgages	1.5 mills or 2.5 mills, depending on maturity			Mortgage tax is a registry tax.
		MONTANA		
a) "Money, credits and securities" Mortgages on real estate are entirely exempted	Assessed at 7% of actual value, and taxed at regular property rates		Assessment by local officials	1) Most debts are deductible, except from state and local bonds.
b) National bank shares and other moneyed capital	Assessed at 40% of actual value, and taxed at regular property rates			2) Total value of property placed on the rolls increased almost 7 fold, but in no year since 1919 has the yield been more than 75% of what it was under old rates. 3) Since 1919 there has been a continuous decline in assessments, due in part to economic depression
		NEBRASKA		
a) U. S. Legal Tender notes, and other securities of U. S. payable on demand, savings accounts, bank deposits, bills of exchange, checks and drafts.	2½ mills		Locally assessed under direction of state Tax Commission	1) Until 1925 the rate was 1/4 of that applicable to tangible property in the local district 2) Assessments increased about 65% first year, but revenue has never been more than 40% of what it was under the old rates
b) All other intangibles Mortgages on domestic real estate treated as real estate. Bank shares assessed at 70% the rate on tangible property	5 mills			